



Australian infant formula exports to China: Factors for Success

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Declaration

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of this thesis is the result of work which has been carried out since the official commencement date of the approved research program; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethics procedures and guidelines have been followed.

Furthermore, I acknowledge the support I have received for my research through the provision of an Australian Government Research Training Program Scholarship.

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Abstract

This thesis investigates the infant formula export trade from Australia to China. The primary aim is to evaluate the main factors for success and failure among firms that export this dairy product. The research question to be answered is '*What are the factors for success at the organisational level for exporting Australian Infant formula to China?*' This thesis argues that specific factors are required to successfully export Australian infant formula to China.

The thesis sets out the context of the problem by providing an overview of the Australian dairy industry. Next is the description of the Daigou phenomenon, a grey export channel operating out of Australia by opportunistic traders through Chinese social media platforms. This indirect mode of exporting has been a key influencer for consumers in China. Following on, the growth of general dairy consumption in China, especially infant formula, and its origins are detailed. Here it is shown how domestic lapses in food safety, especially in the dairy product sector, have pressed Chinese consumers to seek imported dairy products that are presumed to be safer. This particular demand has been the main driver for imported infant formula in China. The extensive socio-economic changes in China have opened up a rapidly expanding market, but also placed specific constraints upon it.

The second section examines the general literature on theories of internationalisation and the firm with reference to export success. In particular, the thesis reviews the evolving interrelationships between the Uppsala Model (UM) and the Resource-Based Theory (RBT). The UM's doctrine is drawn from studies about how firms learn when exporting. The literature suggests that firms with no export experience first venture into a market where cultural, social and institutional characteristics are similar to that of the home country. Their aim is to minimise risk from uncertainty. As the firm's knowledge increases, so too does its commitment, which sees both becoming assets and motivators for seeking new markets under the same conditions. To extend their theoretical insights, UM theorists applied the RBT, which contends that those firms that have a larger amount of rare and valuable resources will have greater competitive advantage. Through the RBT, UM theorists were able to identify the rare and valuable resources generated from the cycles of learning.

The second section also critically analyses the literature on the subject of export performance to China. This was done by examining the key arguments about export performance within the Chinese context. It is argued that practical factors or capabilities referred to in the literature are probably generic to any market success for exporters to China. That is, the literature does not explain success in the dairy sector, particularly that segment for infant formula. This thesis demonstrates that attention must be paid to different country contexts, hence its inability at explaining how firms, who should have failed, succeeded, and vice versa. This section finishes with an overview of the four Miles and Snow Typologies which are used to assess an organisation's strategic approach and its corresponding resource

and capability base. Application of the Miles and Snow Typologies provides greater clarification to the success factors due to the equifinality of successful firms.

The third section explains the research design needed to answer the research question, which was carried out primarily through a qualitative multi-layered approach. Interviews with an Australian government trade promotion agency were carried out at the macro level. At the meso level, interviews were conducted with various industry associations, while at the micro level, four Australian (non-foreign multinational) organisational case studies were selected. These four organisations all had differing business models with half taking a business-to-business approach while the other half a business-to-consumer model.

The fourth section analyses the results from the macro, meso and micro layers, which are subdivided into pre- and post-market entry success factors. Four elements are shown that an organisation must address in order to succeed in exporting infant formula to China. These four that are common to the macro, meso and micro layers and are: product traceability, partner selection, a firm's distribution, and branding strategy. Depending on a firm's business model, these factors will vary in dependence.

The fifth section critically examines the UM and the successful path Australian infant formula exporters undertook. This discussion displays the interrelationship between a firm's business model, psychic distance and speed of internationalisation from Australian to China. Following on, the factors for success address the four elements above under the RBT, showing product traceability as a new determinant to export performance literature and as a key constraint for Australian exporters into China. Furthermore, this section examines the fact that the literature on dairy exports to China does not sufficiently capture these essential factors for success. Both knowledge of, and the capability to fulfil, the specific requirements of China's food safety regime are essential. The discussion shows that firms pursuing competitive advantage in China's infant formula market must pay particular attention to meeting these requirements.

Key words: Export performance, Strategic Management, internal determinants, success factors, Australia, China and infant formula.

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Glossary

ADF	Australian Dairy Farmers
ADIC	Australian Dairy Industry Council Incorporated
ADPF	Australian Dairy Products Federation
AQSIQ	The General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China
AUD	Australian Dollar
B2B	Business to business model of a firm's strategic direction
B2C	Business to consumer model of a firm's strategic direction
CFDA	The China Food and Drug Administration
CHaFTA	The China Australia Free Trade Agreement
CIQ	China Inspection and Quarantine
CNCA	The Certification and Accreditation Administration of the People's Republic of China
COO	Country of origin
MOF	Ministry of Finance China
OEM	Original equipment manufacturer
RBT	Resource Based Theory on competitive advantage
SAIC	State Administration for Industry and Commerce of the People's Republic of China
UM	The Uppsala Model theory of internationalisation
USD	United States Dollar
VRIN	Valuable, rare, imperfectly inimitable and non-substitutable factors of a firm's resources and capabilities that are key components in the RBT theory of competitive advantage

1. Chapter 1: Introduction

The aim of this thesis is to investigate and analyse the organisational success factors, challenges and lessons for exporting Australian infant formula to China. The research arose from the increased export of Australian infant formula to China and the inability of the literature at explaining why. With a focus on problematisation and not a gap-spotting exercise in the literature, this thesis provides a significant contribution to the field of export performance.

This thesis focuses on three important factors for investigation. The first factor pertains to the overall phenomenon. China's long history of tainted food scandals came to a head in 2008 with the Melamine Milk Scandal. It is mainly because of this controversy that Chinese consumers began to seek Australian (and also other imported) infant formula. Melamine, a toxic substance, was used as an ingredient in infant formula produced in China and sold to the public, with deaths and permanent injuries ensuing. In a country where for decades families were allowed only one child, this contamination sent a serious signal to both authorities and consumers.¹

The second factor for consideration is the fact that some firms have failed to successfully leverage the huge demand for Australian infant formula products to China. While Australian infant formula exports have risen from US\$55 million in 2014/15 to US\$309 million in 2016/17, making it the single most valuable dairy category in Australia (Dairy Australia, 2017), this enormous demand is not a guarantee of success.

The third factor addressed in this thesis is the use of export entry mode as the primary mode of internationalisation. Following the melamine scandal, consumers avoided Chinese domestic-produced infant formula. Chinese importers and the grey market 'Diagou' sellers' selected safe Australian quality produce. This opportunity created an immediate market entry mode of export from Australia to China. Nevertheless, a realistic picture of international market entry sees multiple entry modes, which are dictated by macro and micro factors within an organisation.

1.1. Rationale and the research question

The rationale of this thesis is both theoretical and practical. From a practical aspect, greater value-added advantages can be gained from exporting infant formula to China over other commodity-based dairy products. This dairy trade has a significant positive effect to the overall Australian economy. Furthermore, with the Australian dairy industry suffering years of setbacks from natural disasters and intense domestic competition, this thesis increases the competitiveness of the industry in China by providing the factors for success at the organisational level. The practical application of the findings provided an impetus for this thesis. Additionally, as the research focus considers the export success

¹ This phenomenon is further explained in Chapter 2.

factors related to the internal determinates of the firm, findings can be directly applied by organisations in the industry towards practical outcomes.

Searching the literature for the internal determinants to best explain the factors for success in exporting Australian infant formula to China was difficult, due to the relative newness of the increased exports of Australian dairy products to China and the lack of the literature to explain why. Two hundred and eighty-one papers were amalgamated into four meta-analyses which detailed the factors for export performance from 1978 to 2016 (Aaby and Slater, 1989, Zou and Stan, 1998, Sousa et al., 2008, Chen et al., 2016). Nevertheless, this abundance of information only added to the challenge. Moreover, though China-focused research has increased over the last decade, the area is still relatively new and heavily skewed towards a Western perspective (Chen et al., 2016). This thesis contributes to the closing of this deficit.

Overall, the theoretical rationale for this thesis is supported by two claims. The first is the suggestion by Chen et al., (2016), strongly suggesting the need for China-related research in export performance. The second is by Peng (2001), who proposed that advancement of research in international business requires researchers to revert back and retest the fundamentals of international business.

The primary research question this thesis seeks to answer is:

What are the factors for success at the organisational level for exporting Australian Infant formula to China?

Two sub-questions also to be answered are:

1. *What are the pre-market entry success factors?*
2. *What are the post-market entry success factors?*

The culmination of the factors above provides the foundation for the primary research question and sub-questions above. Below, the significance of this thesis is outlined.

1.2. Significance of this thesis

The objective of this thesis is to investigate the organisational success factors for exporting Australian infant formula products to China. This thesis uses primarily a qualitative multi-layered approach as its research design. The importance of this research can be seen in two main areas: (1) the need to increase knowledge in the field of export performance in an Australian Chinese context, (2) The positive contribution, especially the economic, political and social benefits for numerous stakeholders in the industry.

This thesis contributes to existing knowledge in the field of export performance. While export performance literature on China has increased in the past decade (Chen et al., 2016) it remains

insufficient. As China had 212 import partners in 2016 (World Bank, 2018) and the second largest GDP globally, the literature in comparison to China's global economic standing is inadequate. This applied research provides critical insights from key trade organisations, professional industry analysts and export firm participants on the practices and processes of export performance within a dynamic market setting. Contribution to the body of knowledge is therefore both theoretical and practical within an applied setting.

The significance of this thesis from a theoretical standpoint can be seen in five dimensions: (1) it provides a detailed and targeted research that is product- and country-specific; (2) it is based upon a research design where rigour and validity were sought in the face of the turbulent nature of the market (China) and its effects on the industry participants in Australia; (3) the Australia-China context provided special consideration of issues that are distinct between the two countries; (4) the unit of analysis, with its focus solely on China, increases the internal validity; and (5) the multi-layered qualitative approach applied includes case studies and interviews from organisations, industry bodies and government departments. The non-market actors in this thesis also provide triangulation, since secondary data from organisations is sometimes unsuitable for venture-level studies (Chen et al., 2016).

In addition, China's hybrid economy distinguishes itself from Australia, especially regarding the socialist tendencies of its market dynamics. Chinese law points to the fundamental differences to which competition operates as compared to Australia, where a Western liberal economy operates with minimal government intervention and lax competition laws. Chinese competition law imposes greater regulation on market actors, and is in line with the socialist ideology of the State.² Such legislation has been used previously to lower infant formula prices in China (Ng, 2014). From a strategic management perspective, this introduces new avenues of research into the requirements for resources, capabilities and competitive advantage in China.

Along with this thesis's academic contribution, its focus provides significance for Australia from economic, social and political perspectives. From an Australian standpoint, international trade has been the bedrock of its success. While Australia has traditionally exported to mainly Western countries beginning with the United Kingdom, today Australia's top three export partners are China, Japan and South Korea.³ For dairy exports, China is the world's largest market and as well as Australia's largest market by volume. This is valued at USD \$3.75 billion and has increased by 29.8% over the last five years (Dairy Australia, 2016).

² A comparison of Anti-Competition Law between Australia and China was conducted during the researcher's previous academic studies in Chinese Law.

³ <https://wits.worldbank.org/CountryProfile/en/Country/AUS/Year/2016/Summary>

Moreover, Deng Xiaoping's open-door policy to foreign trade in 1978 saw China's GDP increase from \$149.5 billion to \$11.1 trillion in 2015.⁴ GDP per capita during the same period rose from \$156.4 to \$8069.2.⁵ These figures, in addition to a population of approximately 1.4 billion, provide critical mass for exporters globally. With the dependence Australia already has with China for trade, this thesis provides a window into the factors for success for many stakeholders in and around Australia's infant formula industry. To conclude this introduction, an outline of the seven chapters is provided below.

1.3. Thesis outline

Chapter Two aims to provide a contextual overview of the thesis in three parts. First is the overview of the Australian dairy industry, including its structure, evolution and performance. Major commercial events related to this thesis are detailed, and the interrelationship between Australia and China is described. Second, the *Daigou* phenomenon (literally translated as 'buying on behalf of someone'), a grey distribution channel run by diasporic Chinese, is explained. This trend has been a key influence in the rise of Australian infant formula exporters to China. The third aspect is the Chinese market overview, detailing the history of food scandals with particular reference to the Melamine Milk Scandal and its effects. An overview of the economic factors shows China as the world's largest dairy market, and the chapter concludes with the legal aspects and institutional changes that have taken place in China's infant formula industry, together with the consequences for Australian exporters.

Chapter Three provides a review of the literature and is also divided into three parts. It first reviews the Uppsala Model (UM) and Resource-Based Theory (RBT). The literature details the UM's model of internationalisation of market-seeking firms and the resources and capabilities that are needed. The RBT literature explores and explains how valuable, rare, imperfectly inimitable and non-substitutable (VRIN) resources and capabilities are identified, giving firms a competitive advantage in the market. These two theories provide the lens to understand what, why and how Australian firms successfully export infant formula to China.

The second part of Chapter Three explores the literature around export performance. It begins with an overview of entry modes and the reason why firms export, followed by an analysis of the determinants for export performance. The independent, intervening and dependent variables are detailed with macro and micro factors to the firm defined. Factors outside the mainstream literature are also included due to their relevance to the phenomenon of increased Australian dairy exports to China. They include channel partner selection, country of origin marketing and product traceability.

⁴ Courtesy of The World Bank statistics page
<http://data.worldbank.org/country/china?view=chart>

⁵ Courtesy of The World Bank statistics page
<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=CN>

The third part of Chapter Three provides an overview of the Miles and Snow Typologies common in strategic management literature. This typology details four individual categories that an organisation's business model can undertake. The inclusion of the Miles and Snow Typologies aims to increase the clarity of the research in the face of heterogeneous business models for each case study. It furthermore nullifies the criticism of equifinality in the RBT.

Chapter Four describes the research design for this thesis. A multi-layered (macro-meso-micro) qualitative method was selected. These layers consist of interviews at the macro level from a government export assistance agency; two interviews and a focus group with three individual industry associations at the meso level; and four organisational case studies all with heterogeneous business models at the micro level. This multi-layered approach allows for the capture of success factors unseen at the micro level. As the research involved understanding key success factors in a highly dynamic environment, the research plan required flexibility as well as the maintenance of academic rigour. Chapter Four describes the research design, data analysis methods, factors considered for validity and reliability and ethical considerations and concludes by detailing the limitations and constraints to the overall thesis.

Chapter Five presents findings at both macro and meso levels. The presentation of findings in the order of macro, meso and micro layers provides a logical and sequential examination of success factors. The macro and meso findings are individually analysed and set out in four parts: (1) an introduction which provides the background to the interviewees, (2) pre-market entry success factors, (3) post-market entry success factors, presented with quotes verbatim to give the participants direct voice and (4) descriptive analyses of the macro and meso interviews. The conclusion of Chapter Five is a cross-analysis of both macro and meso findings.

Chapter Six is in two parts. The first is a presentation of the findings from the four organisational case studies. These organisations are in the order of the shortest to longest internalised supply chain. Each case study is laid out like those in Chapter Five with an introduction, identification of pre- and post-market entry success factors identified, and descriptive analysis. The evidence is also presented with verbatim quotes to give the participants direct voice. The second part of Chapter Six is a discussion of the findings. Its first part analyses the UM along with the Miles and Snow Typologies for each organisational case study. The second part under the lens of the RBT will identify several success factors required for pre and post market entry success. These factors are presented in order of significance.

Finally, Chapter Seven provides the conclusion, overview, contribution, implication and further research of this thesis. A summation of the main findings is first presented, followed by an overview of each chapter, and the contribution that this thesis makes into the export success literature. The implications for stakeholders are also discussed, pointing to the importance of the research to industry

and government both in Australia and China. The thesis concludes with suggestions for further research opportunities.

2. Chapter 2: The context in relation to the Australian and Chinese infant formula industries

2.1. Introduction

The aim of Chapter Two is to provide the background information and contextual analysis to the thesis. With the infant formula industry all but a small subset of the Australian dairy industry, an overview of both is provided. Overall the chapter is divided into three parts. The first begins with an overview of the Australian dairy industry and its importance domestically, also detailing the major participants, industry bodies and major events occurring in the course of this thesis. The second is an introduction to the professional shoppers or ‘Daigou’ phenomenon as an important and independent distribution channel. This is the indirect mode of parallel exports of food and health products from Australia to China which has become an important aspect in the industry. Thirdly, it investigates the phenomenon from a Chinese perspective. China is an important trade destination for Australian exporters based on trade statistics, which show a substantial rise in imported dairy products, largely stemming from food safety issues in China’s domestic market. The major incidences involving dairy products are detailed, with specific elaboration of the 2008 Melamine Milk Scandal, a major catalyst for the increase consumption of Australian infant formula in China. The section finishes with the detailed changes to China’s food safety laws, regulations and legal organs, and details of the registration process of Australian infant formula exporters to China.

2.2. The Australian dairy industry overview

The Australian dairy industry has been one of the country’s primary agricultural producing sectors for over a century. Having suffered from the environmental effects of a prolonged drought⁶ and increased domestic competition, the rise of China has brought about optimism in the industry. While the phenomenon researched is still in its infancy stage, there has been a concerted effort to increase exports of food to Asia, in which dairy plays a key role. The Australian Government in 1999 instituted the ‘Supermarket to Asia’ initiative to increase exports of food to the region (Pritchard, 1999), in which China is now its largest market. In 2015/16 Australian dairy exports accounted for 34% of total production at a value of \$3 billion, equating to 6% of Australia’s global trade.⁷

In 2015-16 dairy was Australia’s third largest rural industry, worth \$13.7 billion and employing approximately 38,000 people. Furthermore, 9,539 million litres of milk was produced from a national dairy herd of 1.66 million cows.⁸ Registered farms are spread across all states of Australia with Figure 2.1 below displaying this dispersion. In 2015-16, registered farm numbers in each state were 685 in

⁶ Courtesy of the Australian Bureau of Meteorology

<http://www.bom.gov.au/climate/updates/articles/a010-southern-rainfall-decline.shtml>

⁷ Courtesy of Dairy Australia’s Market and Statistics page

<http://www.dairyaustralia.com.au/Markets-and-statistics/Farm-facts/Dairy-at-a-glance.aspx>

⁸ Courtesy of Dairy Australia’s Market and Statistics page

<http://www.dairyaustralia.com.au/Markets-and-statistics/Farm-facts/Dairy-at-a-glance.aspx>

NSW, 4,141 in Victoria, 421 in Queensland, 259 in South Australia, 162 in Western Australia and 434 in Tasmania, yet the industry has contracted considerably, with 21,994 registered farms between 1979 and 1980 compared to 6102 in 2015-16.⁹ The significance of this decrease is that milk production is the very basis of the dairy industry. Over recent years, farmers have seen a rise in the farm gate milk price, with the average increasing from \$4.98 in 2009-10 to \$6.01/kg milk solids in 2015-16. Nevertheless, this last price has come down from its highs of \$6.89 in 2013/14 and \$6.49 in 2014/15.¹⁰

The dairy industry consists of a few large processing companies and many small- to medium-sized entities. The major manufacturing firms are Murray Goulburn Co-operative Co Limited (market share of 24.7%), Fonterra Co-operative Group Limited (market share 13.5%), Parmalat Australia Pty Ltd, (market share 7.3%), Lion Pty Ltd (market share 5.9%) and Bega Cheese Limited (market share 4.6%).¹¹ Although these companies have significant presence in the value chain, the industry is also comprised of hundreds of small- to medium-sized enterprises. 556 entities were registered in 2015-16 (figures courtesy of the Australian Food and Grocery Council¹²). IBIS World accounts these smaller players in the industry as having a combined market share of 48.5%. These small players produce all forms of dairy products, from powders, proteins and nutritional formulas to specialty cheeses, butters, ice creams and yogurts. Dairy Australia, the peak body of the Australian dairy industry, provides an internet database of ‘who makes what’ in Australia, which captures many of the major producers.¹³

⁹ Courtesy of Dairy Australia’s Market and Statistics page
<http://www.dairyaustralia.com.au/Markets-and-statistics/Farm-facts/Cows-and-Farms.aspx>

¹⁰ Courtesy of Dairy Australia’s Market and Statistics page
<http://www.dairyaustralia.com.au/Markets-and-statistics/Prices/Farmgate-Prices.aspx>

¹¹ IBISWorld Industry Report C1133c

¹² Courtesy of Australian Food and Grocery Council
http://www.afgc.org.au/wp-content/uploads/AFGC_State-of-the-Industry-2016.pdf

¹³ Courtesy of Dairy Australia’s “who does what” page
<http://www.dairyaustralia.com.au/Industry-information/Who-Makes-What.aspx>

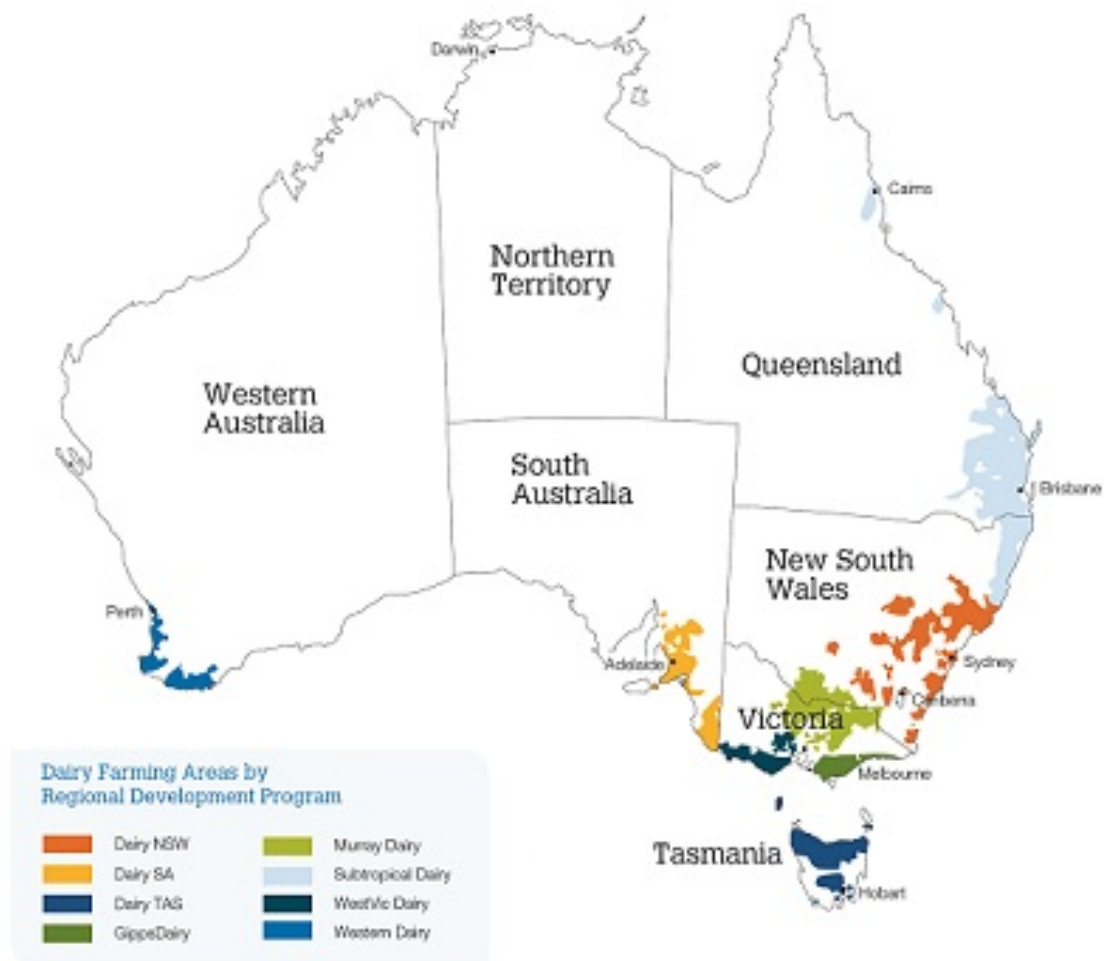


Figure 2.1. Dairy farming areas by region

Source: <http://www.dairyaustralia.com.au/Industry-information/About-the-industry/About-the-Australian-dairy-industry.aspx>

An indication of the supply chain most pertinent to this thesis is shown in Figure 2.2 below and consists of three main parts. The Australian aspect of the supply chain includes milk production, transport, processing and production. In between Australia and China is the logistical aspect, consisting of container shipping, export documentation, import inspection and customs clearing. The third aspect is the China component and involves distribution, retail and finally the consumer. Each part of the supply chain is an important component in the success of Australian infant formula exports to China.

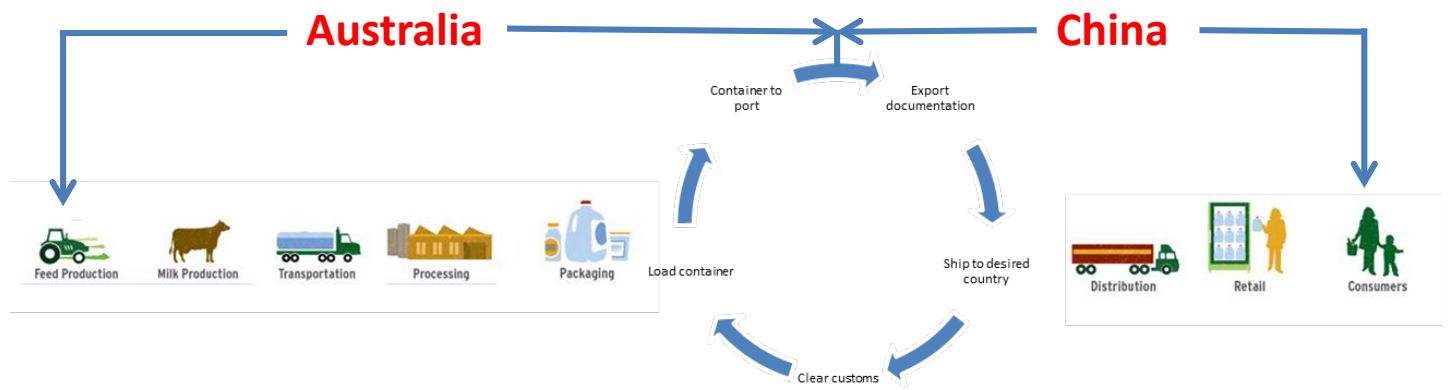


Figure 2.2. Supply chain of the dairy industry from Australia to China

While the supply chain above shows the major junctions by which an infant formula product travels, the value chain depicts the transformation of the product from its raw ingredient to the final product. Figure 2.3 below provides a picture of the value process in the dairy industry, showing how the raw product moves up the value stages. Additionally, Figure 2.3 dissects the dairy value chain to show two differing business models; the left side shows the business-to-consumer (or more commonly B2C) model while the right illustrates a business-to-business or B2B model. The implications of these two paths on an organisation can be seen in their strategies, resources and general capabilities.

The value-added component in the dairy sector is an important factor for Australian manufacturers and infant formula follows very much the same process. With raw milk considered a rudimentary product much like crude oil, this ingredient has the ability to be transformed into many valued-added products through the processing stage, for example, butter, cheeses, yogurts, proteins, condensed and flavoured milks and also nutritional products such as infant formula.

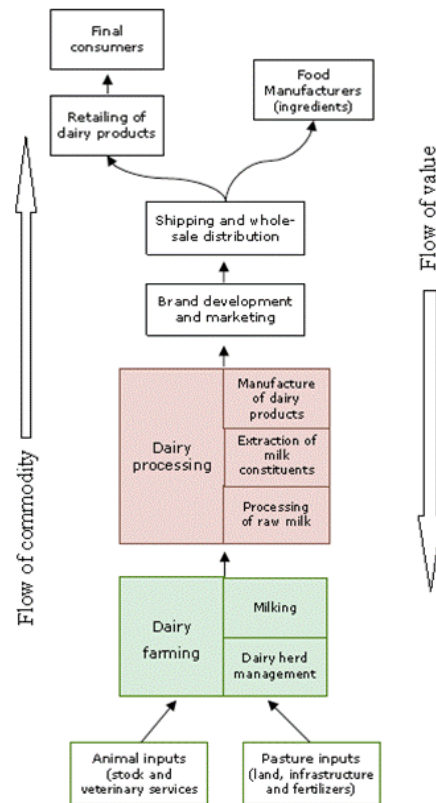


Figure 2.3. The dairy value chain

Source:

http://cgge.aag.org/GlobalEconomy1e/CaseStudy1_New%20Zealand%20Dairy_Sep10/Dairy_Sep104.html

This value-adding is an important aspect to the overall dairy industry. The industry has sought to increase the value of its product offerings in light of fresh milk previously sold domestically for \$1 litre. To provide a comparison, Australian fresh milk in Shanghai retails for \$8 a litre (Thomsen, 2014) and furthermore, export products such as whole and skim milk powders are classified as a commodity of low value. In addition, they are exchange traded meaning that increasing the value add is a priority for many Australian producers. At the governmental level, value-added increasing has also been a policy initiative dating back to 1999. A government submission on increasing the value-adding on raw ingredients which included dairy was to be made a priority in 1999 as well.¹⁴

Moving up the value chain has been a factor for success in the export market of late, typified by a significant rise in the quantity of infant and toddler formulas exported to China. Infant formula is a high-value item with only approx. 30% dairy used. With the product only made up of a third dairy, the

¹⁴ Courtesy of the Australian Federal Government, House of Representatives, Standing Committee on Industry, Science and Resources database file://ntapprdfs01n02.rmit.internal/eh3/e08963/http---www.aphref.aph.gov.au-house-committee-isr-valadd2-subs-sub34.pdf

remaining two-thirds comprises nutrients, minerals and oils. While the product is high in value and low in dairy input, the standards required for its production are governed internationally by the Codex Alimentarius under CODEX STAN 72 – 1981.¹⁵ These standards are rigorous and strict adherence is necessary from all actors. Included in these requirements are strict ingredient and production standards and also stringent marketing codes. These marketing codes are a result of the negative stigma attached to infant formula marketers from deceptive marketing practices of the past (Kent, 2015).

2.2.1. Dairy representative bodies

The representatives of the Australian dairy industry sit in a multi-layered structure with peak representation by the Australian Dairy Industry Council Incorporated (ADIC). The ADIC represents the interests of the whole dairy value chain and is funded by the thirteen largest dairy processing companies.¹⁶ Sitting beneath the ADIC are its two subsidiaries which conduct the majority of the work. The first is the Australian Dairy Farmers (ADF) and the second is Australian Dairy Products Federation (ADPF). The ADIC is the overarching representative body that interacts and negotiates with federal government bodies involved in agriculture and foreign trade. This can be seen in Figure 2.4 below. The ADF and ADPF play supporting roles to the ADIC. Both the ADF and ADPF have specific roles designated within the dairy value chain. The ADF represents the dairy farmers' interests while the ADPF represents 21 processors, manufacturers and traders.

The ADF and ADPF are also the shareholders that own Dairy Australia (DA), a wholly-owned industry company that provides technical assistance to both the ADF and ADPF. DA charges farmers a levy which partly funds the work of DA (in addition to a government contribution). DA is the most resourced industry body, with competent personnel offering all manner of technical and commercial advice and assistance to participants across the whole dairy supply chain. DA has three strategic priorities: (1) creating profitable and competitive farms, (2) protecting and promoting the industry, and (3) growing capacity and skills.¹⁷ To provide an indication as to the level of proficiency DA has, much of the statistical data within this thesis is sourced from DA, and most industry stakeholders deal with DA primarily.

¹⁵ Standards For Infant Formula and Formulas for Special Medical Purposes Intended For Infants CODEX STAN 72-1981

http://www.fao.org/fao-who-codexalimentarius/sh-proxy/fr/?lnk=1&url=https%253A%252F%252Fworkspace.fao.org%252Fsites%252Fcodex%252Fstandards%252FCODEX%2BSTAN%2B72-1981%252FCXS_072e.pdf

¹⁶ Australian Dairy Industry Council website

<http://www.australiandairyfarmers.com.au/australian-dairy-industry-council>

¹⁷ Courtesy of Dairy Australia 'what we do'

<https://www.dairyaustralia.com.au/about-dairy-australia/about-the-organisation/what-we-do>

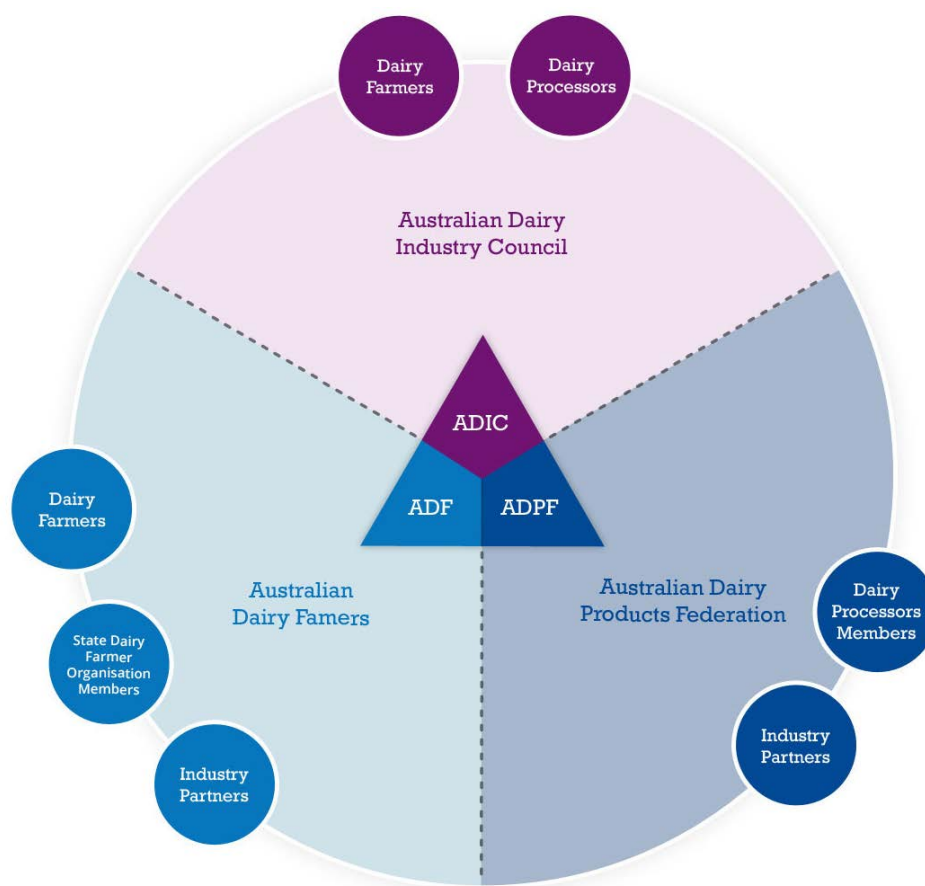


Figure 2.4. Peak industry representative bodies

Source: <http://www.australiandairyfarmers.com.au/national-dairy-advocates-australia>

In addition to the nation representation, other agricultural bodies overlap and have complementary interests with the dairy industry. The Australian Dairy Herd Improvement Scheme is a subsidiary of the ADF. Its responsibility is to increase productivity in the industry through generic evaluations and improvements. There is also the National Farmers Federation which represents all farmers in Australia and is a major advocate and lobby group at the national level. It comprises 39 council representatives, of which the ADF is but one. Furthermore, the six states have their own dairy farm organisations which represent the farmer's interests at state, regional and local levels. In the R&D space DA, together with eight other dairy companies, have co-invested in Dairy Innovation Australia Limited (DIAL), a research facility based in the outskirts of Melbourne Victoria. This initiative aims to increase innovation in manufacturing for its members in the Australian dairy industry to ensure that the industry is competitive both domestically and internationally.

Lastly, there are product specific industry bodies. One that is pertinent to this thesis is the Infant Nutrition Council (INC) of Australia and New Zealand.¹⁸ This industry body provides information and

¹⁸ <http://www.infantnutritioncouncil.com/>

advocacy work to members involved in infant formula manufacturing and trade. While the INC is independent from all other dairy associations, they represent 95% of manufacturers of infant formula from Australia and New Zealand. The INC is also unique in representing organisations across the Tasman Sea, which is important as New Zealand is the world's largest dairy exporter, with its national cooperative Fonterra having the largest market share in China. Overall, the numerous organisations and associations mentioned above look to ensure viability and success of the domestic dairy industry as well as its competition in foreign markets.

2.2.2. Major events affecting the Australian dairy industry

At the global level, many macroeconomic factors affect the dairy industry. Volatile commodity prices for whole and skim milk have plagued the industry, and geopolitically, sanctions against Russia – which was Australia's largest export market for butter – have meant an oversupply of dairy globally (Locke, 2016). In 2013 Russia was the second largest dairy importer in the world according to Rabobank (Bellamy, 2016). As the EU was the largest exporter to Russia, and in the wake of these sanctions, this has meant that the EU exporters flooded other international markets with their excess capacity. The majority of this was to China, especially in the UHT milk category (Locke, 2016). In addition to Russian sanctions, the dairy market is increasingly susceptible to fluctuations in the price of oil, since key export countries for Australia are also major oil producers and reliant on high oil prices.

At the policy level, Australia signed three free trade agreements with Japan, South Korea and China during the writing of this thesis. These FTAs are important as Japan, South Korea and China rank 2nd, 4th and 1st for Australian dairy export destinations by volume.¹⁹ The Japan-Australia FTA was considered by the dairy industry as disappointing, with unsatisfactory outcomes on tariff reductions for fresh cheese especially (Gray, 2014). The China-Australia FTA (ChAFTA) had been an ongoing negotiation since 2005. A total of 20 rounds of discussions were held and final negotiations were completed on 17th November 2014. According to Australia's Department of Foreign Affairs and Trade (DFAT) website²⁰, key outcomes of the ChAFTA saw the removal of all tariffs from Australian dairy exports within four to eleven years of its inception. Some of these tariffs were as high as 20%. DFAT highlights that the ChAFTA deal puts Australia in an advantageous position against both North American and EU exporters and on a competitive footing with New Zealand and Chile.

¹⁹ These details are available in the links below on the Dairy Australia website
http://www.dairyaustralia.com.au/~media/Documents/Stats%20and%20markets/Exports%20and%20trade/2016%20Market%20briefs/Market%20briefs_Japan.pdf,
http://www.dairyaustralia.com.au/~media/Documents/Stats%20and%20markets/Exports%20and%20trade/2016%20Market%20briefs/Market%20briefs_Korea.pdf,
http://www.dairyaustralia.com.au/~media/Documents/Stats%20and%20markets/Exports%20and%20trade/2016%20Market%20briefs/Market%20briefs_Greater%20China_V2.pdf

²⁰ <http://www.dfat.gov.au/fta/chafta/fact-sheets/key-outcomes.html>

There have also been significant commercial events domestically that have unfolded during the course of this thesis. These events include:

- Bega Cheese Limited's full takeover of Tatura Milk Industries in 2011.
- Murray Goulburn's (MG) \$500 million equity capital-raising initiative to expand its manufacturing facilities to enact a China-focused strategy in 2015.
- The Saputo takeover of Warrnambool Cheese and Butter, paying \$9.05 a share and completing in 2017. This was mainly for strategic acquisition and securing of milk supply (Smith, 2017)smith.
- MG's decision to reverse farm gate prices previously promised. Between February and April 2016 MG began with a farm gate price of \$5.60, then in April 2016 decreased the price to between \$4.75 and \$5.00. MG stated that \$5.60 was no longer achievable due to a slump in global prices. The fallout was catastrophic to farmers and the industry, as MG is the major setter of farm gate prices across Australia. Both CEO and CFO resigned over the matter. Nonetheless the outcome is still unfolding, with farmers leaving the industry and the firm currently being investigated by Australian competition authorities for misleading investors.
- The sale of 79% of Burra foods to Inner Mongolia Fuyuan Farming Company in 2016 (Smith, 2016).
- The downfall in 2016 of Bellamy's Organic. This firm was once the star performer amongst Australian infant formula exporters to China, thanks mainly to the Daigou phenomenon (as will be explained below). The company share price has since dived with board challenges taking place. This turbulence is mostly over the company losing its ability to export to China, as the firm is required to partner with a China accredited manufacturer by year-end. This sent the stock into a trading hold, leading to the resignation of the CEO. Attempts are still underway to find an accredited OEM at the time of the research.

The Bega and Saputo takeovers were a consolidation in the market mainly for securing milk supply, yet the other events had a greater effect because of the Chinese market. The first of those events was the turbulence that unfolded at MG who invested heavily in order to capitalise on the growing demand of the Chinese market. The changing regulatory landscape in China has led to greater uncertainty, which forced MG to retreat from its ambitious China strategy (The Australian Dairy Farmer, 2014). A further blow to MG was the withdrawal of a supply agreement with Mead Johnson to provide the China market infant formula.²¹ The significance of this is that Mead Johnson is a global leader in the infant formula category, especially in China. In addition, the ambitious plans and high forecast farm gate milk prices

²¹ The full details are available on the Murray Goulburn website dated 05/2/2016
<https://static1.squarespace.com/static/5add407c4611a0441175efcc/t/5ae6b9de03ce64d372f71543/1525070306671/asx-release-update-on-mead-johnston-nutrition-partnership.pdf>

had to be revised, causing anger and distress across the industry. The drama is still developing at the time of writing this thesis.

The second event is courtesy of Bellamy's Organic, a boutique infant formula company. Many factors have affected the organisation such as the regulatory dynamism in China, the company's reliance on third parties to produce their infant formula, and the over-dependence on the Daigou, an informal grey export distribution channel. Furthermore, Bellamy's also made dubious claims of country of origin production when some of its ingredients were sourced from Austria. Nevertheless, the most critical for Bellamy's at the moment is the loss of their third party infant formula (OEM) producer. At the time of writing this thesis, Bellamy's was required to find an accredited CNCA manufacturer by the end of the year.²² Inability to do so will render it unable to export to China, for which it derives a majority of its revenue. Paul O'Brien, a China-based analyst and LinkedIn blogger on the infant formula industry, attributes the reliance of the Daigou and country-of-origin issues to Bellamy's failed China strategy.²³

The last event and one that did not receive much attention in the financial press was the sale of Burra Foods to Inner Mongolia Fuyuan Farming Company for A\$300 million.²⁴ Burra is a large dairy ingredient supplier, specialising in infant formula base ingredients. It has been able to export infant formula ingredients to China and not require CNCA approval due to ingredient exporters having lower entry requirements. The sale is seen as a strategic move by the company's management to partner itself with a large Chinese dairy company for greater access into China. While the above provides a vignette of incidents and events, the effects of the Chinese dairy landscape has had significant impact on the Australian dairy industry as a whole.

2.3. The *Daigou* Phenomenon in Australia

A new occurrence which is unique in Australia is the rise of Chinese professional shoppers or the 'Daigou' phenomenon. Pronounced as *dye-goo*, its literal Chinese meaning is to 'buy on behalf of' (Battersby, 2016). The practice is mainly performed by diasporic Chinese, who take advantage of the willingness of Chinese consumers to pay higher prices for Australian products such as skincare, vitamins and especially infant formula. This is due to the distrust of Chinese-made products and the ability to counterfeit products through traditional distribution channels in China. The process used by a Daigou trader first involves soliciting orders from Chinese consumers through advertisements on Chinese social media platforms. From an infant formula perspective, the phenomenon has grown significantly in the wake of the 2008 Melamine Milk Scandal (Chan et al., 2016), and although the practice is relatively new, its impact has been substantial. One analyst estimated that between 100 to

²² This CNCA accreditation will be discussed below.

²³ <https://www.linkedin.com/pulse/what-happened-bellamys-australia-ltd-paul-o-brien-%E4%BF%9D%E7%BD%97>

²⁴ This is a media release courtesy of the law firm Minter Ellison on the 06/09/2016
<https://www.minterellison.com/articles/burra-foods-sale-to-chinese-consortium-completed>

500 parcels per day through 1,200 Daigou stores worth approximately \$100 billion in 2016 occurred in Australia alone (Wang, 2017). Nguyen et al., (2016), researching the phenomenon, estimates that 6-10% of Chinese infant formula purchases stem from this form of parallel exporting, which equates to \$7 billion Yuan in Chinese sales each year.



Figure 2.5. The effects of Daigou, causing purchasing restrictions on Infant formula by retailers

Source: Researcher's fieldwork

The phenomenon has started to receive attention in the local press due to its effect on infant formula stocks in major capital cities, especially in Melbourne. Articles on the internet overseas, such as one by Chen (2011), identify New Zealand infant formula as popular products that Daigous are sending to China. While mainstream press has begun reporting on the Daigou phenomenon, bloggers with an intimate knowledge of the trend, such as Sun (2015) have been discussing the topic since as early as 2015.

The effect of the Daigou phenomenon has been an uncontrollable supply chain by infant formula makers coupled with huge shortages in local supermarkets. Australian companies have had to increase imports of infant formula to cater for domestic consumption due to Daigou re-exporters²⁵, and as Figure 2.5 shows, retailers in Australia have imposed purchase restrictions because of supply constraints and protests from domestic consumers (Han, 2015). While the sales effect is positive, there are inherent risks. This distribution channel is mostly uncontrollable as well as being susceptible to regulatory changes in China. Figure 2.6 below shows share prices of the listed dairy exporters falling after Chinese authorities announced tougher e-commerce import requirements which were subsequently reversed. The three organisations in Figure 2.6 – Murray Goulburn, Blackmores and Bellamy's – have been a favourite of the Daigou traders.

²⁵ Courtesy of Dairy Australia's Market and Statistics page
<http://www.dairyaustralia.com.au/~media/Documents/Stats%20and%20markets/S%20and%20O/2017-02/S-O-FEB-2017.pdf>

Comparative performance (%)

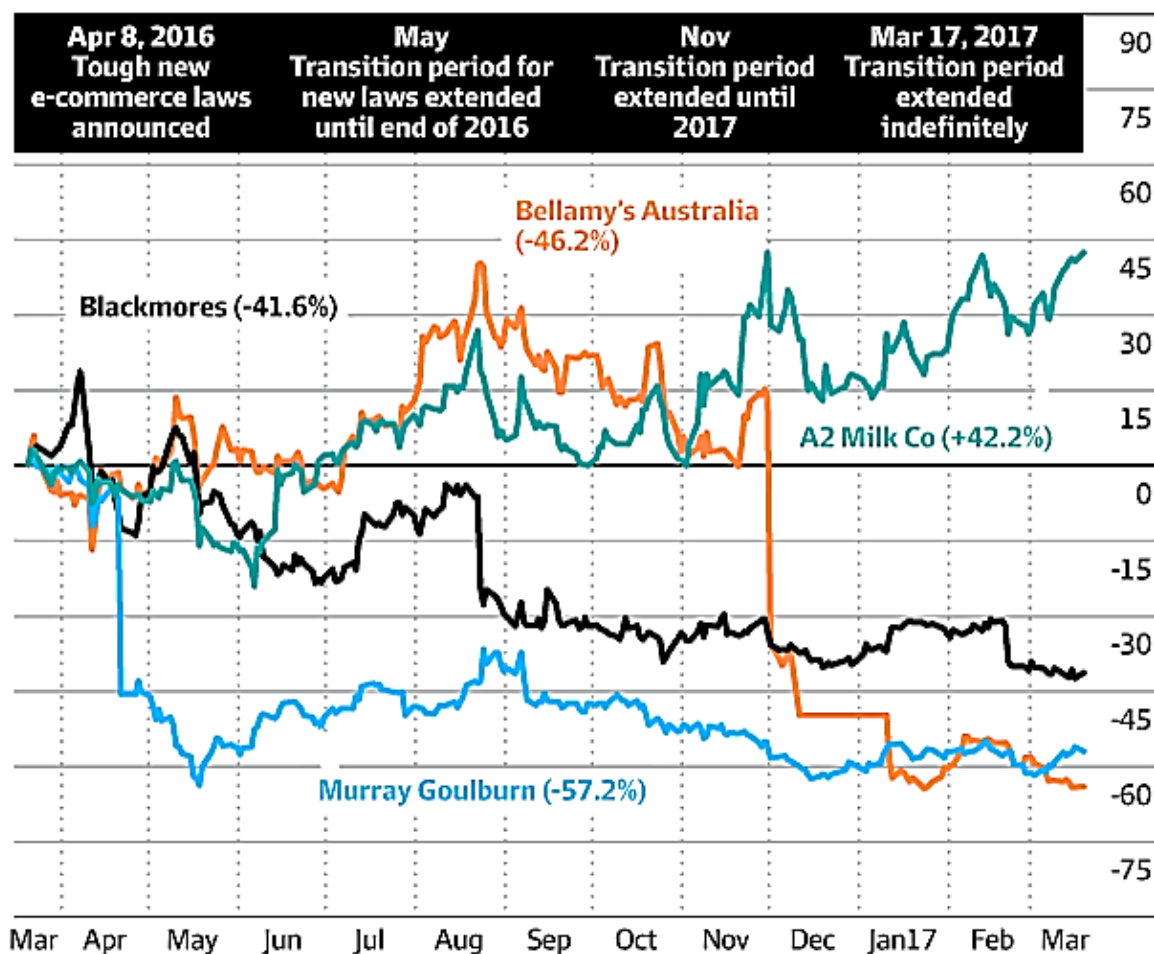


Figure 2.6. Share price effects of proposed laws on Daigou exports

Source: <http://www.afr.com/business/retail/fmcg/china-backs-down-on-tough-new-ecommerce-laws-in-boost-for-aussie-exporters-20170320-gv28fe>

2.4. The China market overview

The importance of China as a destination for trade is no secret. With the second largest economy globally and an official population of 1.371 billion people, it is an important export market, especially for Australia, The World Bank statistics show.²⁶ Figure 2.7 shows Australia's dependence on China for two-way trade. With China's rising economic power, fortunes have increased and a burgeoning middle class is on the rise. This middle class is seen as an important segment in the consumer market due to its increasing income levels and aspirational objectives. The expectation is that this group will be the largest single middle class market globally by 2020, surpassing the United States (Hu, 2011). With this rising middle class, shifts are evident not only in material trappings but also in changes to lifestyle. If

²⁶ <http://data.worldbank.org/country/china>

China maintains its current economic growth trajectory, the next decade might see not only a significant increase in per capita food supply needed (Gerbens-Leenes et al., 2010) but also in the amount consumed per capita.

Rank	% growth					
	2013-14	2014-15	2015-16	% share of total	2014-15 to 2015-16	5 year trend
Australia's top two-way trading partners						
1 China	151,825	143,570	150,089	22.7	4.5	5.5
2 United States	58,465	64,790	69,281	10.5	6.9	5.8
3 Japan	72,103	67,588	60,345	9.1	-10.7	-2.6
4 Republic of Korea	35,146	35,475	33,914	5.1	-4.4	1.9
5 United Kingdom	20,687	21,749	26,971	4.1	24	1.7
Australia's top export markets						
1 China	99,426	84,205	86,013	27.5	2.1	3.4
2 Japan	51,019	46,499	38,039	12.2	-18.2	-4.6
3 United States	17,138	20,526	21,917	7	6.8	9.4
4 Republic of Korea	22,476	20,385	19,723	6.3	-3.3	-4
5 India	10,378	12,554	12,923	4.1	2.9	-7.4
Australia's top import sources						
1 China	52,399	59,365	64,076	18.4	7.9	8.9
2 United States	41,327	44,264	47,364	13.6	7	4.4
3 Japan	21,084	21,090	22,305	6.4	5.8	1.9
4 Thailand	13,187	14,034	16,477	4.7	17.4	7.7
5 Germany	14,827	14,770	16,165	4.6	9.4	5.3

Table 2.1. Australia's trade in goods and services by top five partners (A\$ million)

Source: Australian Department of Foreign Affairs and Trade²⁷

2.4.1. The rise in demand for dairy in China

Dairy consumption in China has risen extensively, in line with the Chinese economy. Analysis by Dong and Li (2016) revealed that consumption trends from 1992-2012 in total dairy consumed per individual rose from approximately 9 kilograms to approximately 21 kilograms. Similarly, growth in consumption by Chinese consumers is mimicked by import volumes. Figure 2.8 below shows the long-term trend of imports of dairy into China. The most notable fact is the sharp rise in imports post-2008. It is this period which corresponds with the Melamine Milk Scandal (which will be discussed in more detail below).

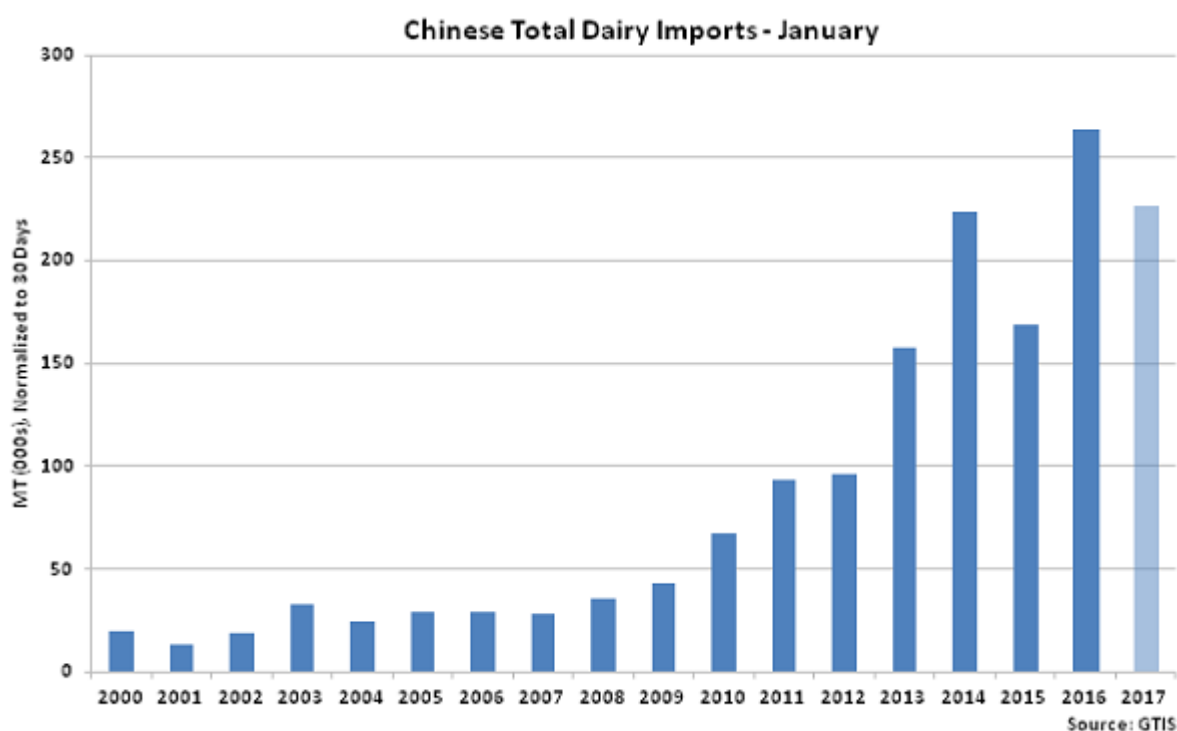


Figure 2.7. Total Chinese dairy imports per exporting country for 2014-2015

Source: <http://www.attenbabler.com/new-zealand-dairy-exports-update-jan-16/>

Australian dairy exports to China have also been increasing, although less than other major exporter competitors. Figure 2.8 below shows the total dairy imports from New Zealand, the 28 European Union countries, the United States, Australia and other minor importers into China. Most telling from the figure below is firstly the wide gap that New Zealand enjoys against its competitors, and secondly the increase in exports post-2008, which again is in part due to the Melamine Milk Scandal. This increased export level was also exhibited by the EU and the United States. Australian growth seems to have only begun post-2012, corresponding with the start of the phenomenon being researched.

²⁷ <http://dfat.gov.au/about-us/publications/trade-investment/australias-trade-in-goods-and-services/Pages/australias-trade-in-goods-and-services-2015-16.aspx>

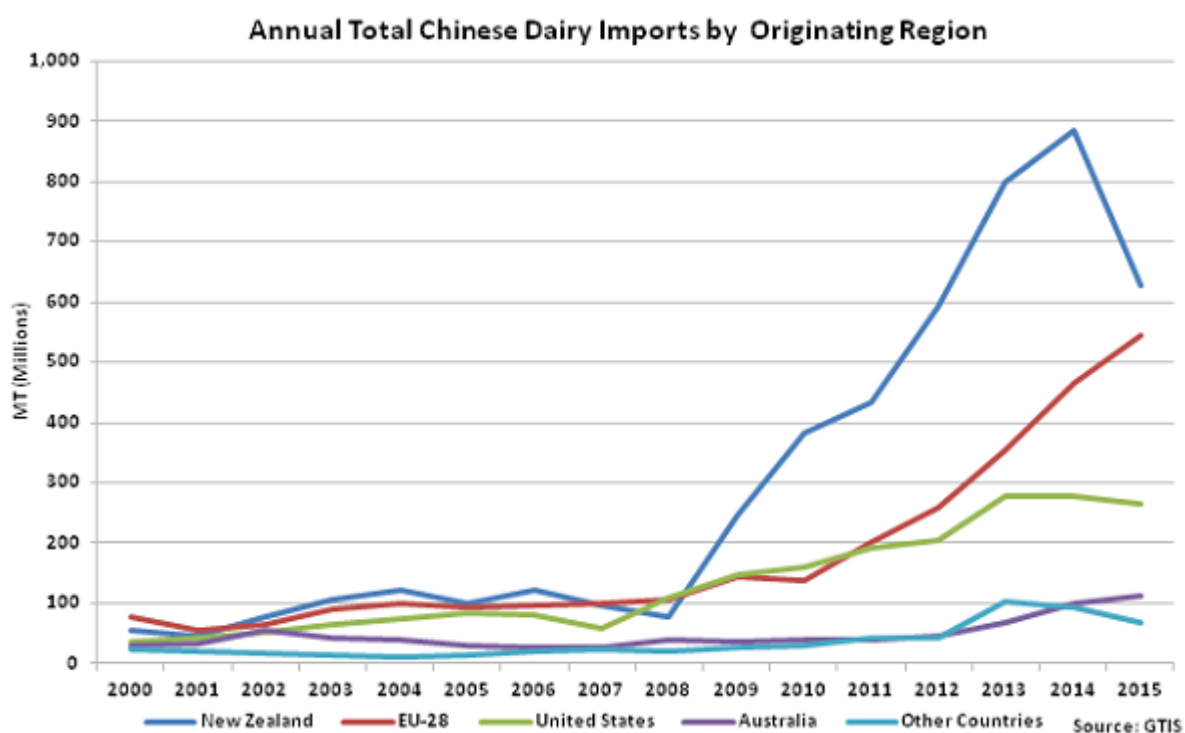


Figure 2.8. Chinese total dairy imports

Source: <http://www.attenbabler.com/new-zealand-dairy-exports-update-jan-16/>

While Figure 2.8 provides the total dairy exports by countries to China, many of these exports were commodity-type products such as whole and skim milk powders and UHT milk. Nonetheless, dairy economic consulting firm CLAL, show in Table 2.2 below the leading export countries for infant formula into China. Though Australia is ranked seventh, the increase from 2011 to 2016 is a significant 336%. Dairy Australia in their situation analysis for February 2017 showed that infant formula exports from October 2015 to 2016 rose from 6000 tonnes valued at US\$74 million to 19,000 tonnes valued at US\$ 274 million. Although these are the official statistics, the real figures are unattainable due to the Daigou trade as described above.²⁸ While the discussion above has centred on the quantitative aspects of Chinese dairy consumption and trade, the following looks into the qualitative aspects of dairy in China, mainly focusing on issues of food safety.

IMPORT CHINA: Main 10 suppliers of Infant milk formula in 2016 (Tons)								
Country	2011	2012	2013	2014	2015	2016	± % on 2015 *	± % on 2014 *
1 Netherlands	14.05	21.05	25.16	33.60	57.72	79.06	+36,97	+135%
	3	1	4	8	1	3	%	

²⁸ <http://www.dairyaustralia.com.au/~media/Documents/Stats%20and%20markets/S%20and%20O/2017-02/S-O-FEB-2017.pdf>

2 Ireland	1.570	4.205	7.636	17.30	24.70	32.61	+32,03	+88,46
				8	4	8	%	%
3 New Zealand	12.50	16.32	19.74	10.48	14.48	24.07	+66,20	+130%
	7	4	7	7	3	1	%	
4 Germany	816	1.759	2.108	4.830	17.49	21.69	+24,03	+349%
					1	5	%	
5 France	11.45	15.76	22.55	16.38	15.71	15.04	-4,25%	-8,15%
	5	4	4	1	5	7		
6 Denmark	5.717	4.896	11.17	12.44	10.86	13.30	+22,49	+6,96%
			7	2	5	8	%	
7 Australia	3.566	3.975	6.795	4.546	10.70	12.00	+12,08	+164%
					8	1	%	
8 Korea, South	2.414	3.255	4.932	5.788	7.320	8.386	+14,56	+44,90
							%	%
9 Switzerland	1.719	1.339	2.039	3.011	3.082	5.273	+71,06	+75,11
							%	%
10 United States	1.322	2.006	1.986	2.327	4.587	4.278	-6,75%	+83,85
								%

Source: Processed by Clal based on GTIS data
*** Change from the same period of previous year.**

Table 2.2. The 10 main infant formula importers to China by country

Source: http://www.clal.it/en/?section=stat_cina

2.4.2. Food safety issues

While previous discourse in China has centred on the supply side of food, the qualitative aspects have also come to the fore (Gale and Huang, 2007). Greater affluence means that consumers will demand and expect food quality to be of the highest standard. As China prospers economically, the dairy sector's importance will continue to rise, seeing greater need for food supply due to increased consumption per capita (Gerbens-Leenes et al., 2010). From a qualitative perspective, infants and young children are highly vulnerable to food-borne infections, making the safety aspect of infant formula particularly important (Drudy et al., 2006). Contextual factors are significant to the trade and consumption of infant formula in China. In the wake of the Melamine Milk Scandal, the one-child policy, and with dairy being referred to as *white blood* (Gong and Jackson, 2012b), the significance of infant formula is easily recognisable.

As has been alluded to above, the demand for imported dairy has increased, especially after the 2008 Melamine Milk Scandal. Food safety is a major factor that concerns many in Chinese society, thus influencing their selection of foods. This is not only of great concern now (Chung and Wong, 2013, Wu and Chen, 2013, Zhu et al., 2013, Veeck and Burns, 2005) but even more so going forward. The domestic food industry in China is not as advanced as that in Australia, and many native firms in China's food processing and catering industry are small manufacturing operations. In addition, very little oversight and weak regulatory enforcement prevails, whilst strong local government protectionism, weak monitoring capacity and lack of product liability laws are seen as major flaws in China's food safety (Grunert et al., 2011).

Although China experiences horrific examples of food safety violations, Dong and Li (2016) present five of the major safety incidents of dairy cases in China as follows:

- 'Enterobacter sakazakii' of Enfamil in 2004
- The 'Melamine Milk incident' in 2008
- 'Precocious puberty' of Shengyuan in 2010
- 'Quality gate' of Guangming in 2012
- The imported 'Botulinum toxic' milk powder from New Zealand in 2013

While all of the above incidents have been serious, the Melamine Milk Scandal has had the most impact, especially from social and political perspectives. The case involved Sanlu, which at the time was the joint venture partner with Fonterra, the New Zealand dairy co-operative and the world's largest dairy company. The offence occurred when Sanlu used a toxic plastic compound called melamine to mask protein dilution in its domestic-made infant formula. This compound is widely used to produce fertilizers, plastics, laminates, paints and adhesives (Pei et al., 2011). Six infants died and 51,900 infants were hospitalised with renal failure (Tang et al., 2014). Furthermore, over 290,000 babies were affected, causing huge public outrage. The incident prompted Chinese authorities to prosecute harshly those involved, which led to life sentences and executions of company officers (Xiu and Klein, 2010).

A major reason for the issues around sub-standard domestic dairy produced in China was due in part to the high number of unregulated businesses in the industry. The infant formula industry in China, according to Scott et al., (2013) at the time of publishing, included 127 infant formula manufacturers but only three that could produce over 30,000 tonnes a year. Overall there were 54,500 organisations in China handling infant formula. In addition, before 1st May 2014 there were more than 3,000 brands of infant formula in China. Nevertheless, it was in response to these domestic issues that Chinese consumers opted for foreign-made infant formula, paying approximately AUD80 for a can of infant formula that retails for AUD25 in Australia (Chang, 2016).

With these examples of food safety issues, the high level of institutional oversight comes as no surprise. Departmental supervision begins at a central level with a State Council consisting of three vice-premiers and ministerial supervision. Four other ministries involved are (Meador and Ma, 2013, Ji et al., 2014):

- Ministry of Agriculture (MOA), in charge of primary agriculture
- General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ), in charge of import/export inspection, quality and hygiene of domestic food processors
- China Food and Drug Administration (CFDA), responsible for food services and catering (formerly known as the State Food and Drug Administration)
- State Administration of Industry and Commerce (SAIC), accountable for food and product distribution

Contributing factors to the increased demand for foreign imported infant formula include not just distrust of locally produced formula but also the recent restrictions being lifted on the one-child policy, a change which is expected to substantially increase birth rates (Feng et al., 2016). Breastfeeding at four to six months in China was only 27% and declining, and very few cities in China met the national target of 80% exclusive breastfeeding at four to six months (Fenglian et al., 2009), meaning a greater reliance on infant formula. These factors, in unison with an emphasis on child welfare above all else, will see imported infant formula consumption increase in the future. On the basis of all the above, Beijing officials understand the magnitude of the challenge. Controlling the infant formula market is a critical imperative for Chinese authorities, together with the general issue of food safety which, if not resolved, will place significant pressure on the legitimacy of the Chinese Communist party (Wahlqvist et al., 2012).

2.4.3. Food safety laws and regulations and implementation

In response to numerous food scandals, the Chinese government has acted swiftly to bring about order in the infant formula market. A new raft of laws and regulations were brought in to deal with the fallout. From 2009, authorities have intensified the legislative emphasis on food safety, with particular weight on dairy products, beginning with dairy infant formula. Transplanting EU standard benchmarks has prepared Chinese authorities for upgrades in its food safety standards and legislative framework to meet EU and global industry requirements (Charlebois et al., 2014).

From June 2009 until March 2013, there have been fifteen new and revised food-related laws handed down by central government, commencing with the *Food Safety Law of the People's Republic of China 2009* (Ji et al., 2014). This decree, No. 577, was adopted on the 8th July 2009 at the 73rd State Council

executive meeting. Comprising ten chapters and sixty-four articles²⁹, this new food safety law provides a foundation to subsequent regulations for further strengthening of the governing framework. The 2009 Food Safety Laws superseded the 1995 Food Hygiene Law, with specific intent to provide protection for food consumption (Xu, 2011). The 2009 Food Safety Law was further revised in 2015³⁰, amending 90% of the original articles and adding 49 new articles to the existing 2009 law (Bing et al., 2016).

Supplementary to the food safety legislation is the addition of the *2009 Tort Law of the People's Republic of China*.³¹ Though a common law occurrence, provisions for product liability allow for corrective damages by claimants, which have been described as excessive (Thomas, 2014, Ascher, 2013). For liabilities under *Chapter V of the 2009 Tort Law*, where the total value is under RMB 10,000, penalties range from RMB 50,000 to 150,000. For values greater than RMB 10,000, fines of 15 to 30 times the face value are imposed. Although the above is a generalisation, for infant formula, breaches are enforceable by five ministries and administrators, and penalties consist of 15 to 30 times the value of the commodity as well as civil damages of ten times the price of the food product involved (Meador and Ma, 2013). Furthermore, business license revocation on top of criminal proceedings against company officers also exist (Meador and Jie, 2013, Xu, 2011).

The focus of the new regulations is clearly on controlling product quality through supply chain traceability. The key points in the new regulations are:

- Stricter control on shelf line
- High levels of registration and certification
- Greater emphasis on supervision and inspection of infant formula manufacturing plants, both domestic and international (auditing)
- Stricter labelling requirements
- Greater tracking of product through the supply chain
- Approving exporters by the Certification and Accreditation Administration of the People's Republic of China (CNCA) with a limit of three brands produced (Scott and Zhang, 2014).³²

The laws legislated by central government in Beijing are then distributed, with the implementation of such statutes subordinated to and executed by local governments under the 1982 constitution of the People's Republic of China (Jia and Jukes, 2013). The implementation is carried out in 34 provinces,

²⁹ For a the full wording of the legislation in English go to
http://www.fdi.gov.cn/1800000121_39_4037_0_7.html

³⁰ A revised version can be accessed through <http://en.pkulaw.cn/display.aspx?cgid=247403&lib=law>

³¹ Full text in English is available at this link
http://www.procedurallaw.cn/english/law/201001/t20100110_300173.html

³² In addition to information from the Australian Government Department of Agriculture and Water resources
<http://www.agriculture.gov.au/export/controlled-goods/dairy/din/2017-01>

333 cities and 2,826 counties throughout China (Meador and Ma, 2013, Jia and Jukes, 2013). With respect to food imports to China, this area is overseen by AQSIQ under the Entry-Exit Inspection and Quarantine Bureaux (CIQ) by 35 CIQ offices in 31 provinces and cities, 300 branches and more than 200 local offices around the country.³³ CIQ functions are performed in all land, sea and air ports, for which the CIQ is afforded a large degree of agency in all matters relating to governance.

Continuous refinement by Chinese authorities has further strengthened the existing food safety laws, aiming for greater emphasis on product standards and product traceability (Meador and Jie, 2013). This was identified when the CFDA in its September 2010 decree proposed to ‘improve the dairy traceability system’ and ‘implement electronic information traceability system’ in response to dairy scandals (Charlebois et al., 2014). This traceability aspect is key feature of the overall architecture for ensuring product safety. Oversight for the infant formula market and its re-classification under the CFDA has meant that infant formula is no longer classified as a food-based product but one on par with pharmaceutical standards. This has meant that regulatory standards imposed on infant formula manufacturers are the equivalent to medicinal and pharmaceutical products. Equally important, 2013 saw a raft of additions to previous legislation, first targeting internal producers of dairy infant formula then onto international producers.

2.4.4. CNCA registration

With the emphasis on overhauling the domestic food industry, Chinese officials have also embarked on imposing new import restrictions on international manufacturers, with an audit on their production standards (Yap, 2014). Two classifications of registration have been issued by the CNCA. The first is a general dairy licence which, within the Australian context, is issued by Australian authorities on behalf of the CNCA. On the CNCA list, 188 organisations are accredited with a general dairy licence (as of 19/05/2017).³⁴

The second class of registration pertains to infant formula producers. Conducted by officials from the CNCA, Chinese consulate representatives and Australian regulatory officials, this registration for infant formula is only applicable to blenders and canners in the supply chain, who could either be producing the products themselves or acting as an OEM for third-party infant formula marketers much like the business models of Figure 2.3 above.

With the objective of the audit for infant formula processors to increase the transparency of their production through the supply chain and thereby increase product quality and safety, the Chinese authorities have set strict traceability requirements along the whole supply chain, from farm to

³³ <http://english.aqsiq.gov.cn/AboutAQSIQ/Mission/>

³⁴ For a full list of the firms please see link: <http://www.cnca.gov.cn/ywzl/gjgnhz/jkzl/imports-list/dairy/Australia20170125.pdf>

consumer. Furthermore the audit aims to eradicate opportunistic traders in China looking to capitalise on the growing demand. Since there have been no major incidents in relation to the infant formula industry in China of late, the institutional oversight appears to be working.

Overall, the audits have been described as rigorous and opaque (McAloon, 2014). As a whole, the Australian infant formula industry now has managed to have eight infant formula manufacturers pass this audit. Additionally, each of these manufacturers can produce a maximum of three individual brands. Figure 2.9 below shows the complete list of Australian infant formula processors that have been accredited to export to China. It's worth noting that all eight were not licensed immediately, with MG and Australian Dairy Park first, then a slow inclusion throughout the last three years.



中华人民共和国国家认证认可监督管理局

Certification and Accreditation Administration of the People's Republic of China

澳大利亚婴幼儿配方乳品生产企业在华注册名单

(2016年12月09日更新)

序号 No.	注册编号 Approval NO.	企业名称 Manufacture name	注册地址 Manufacture address	注册类型 Type	注册产品 Products for approval	备注 Remarks
1	1179	Camperdown Powder Pty Ltd	10 Phoenix Court, Braeside, Victoria, Australia, 3195	加工企业 PP	婴幼儿配方乳粉 infant formula milk powder	
2	1381	VIPLUS DAIRY PTY LTD	67 TOORA JETTY ROAD TOORA VIC 3962	加工企业 PP	婴幼儿配方乳粉 infant formula milk powder	自2016年12月9日, 恢复在华注册资格。
3	1890	SPHERE HEALTHCARE (ASIA) PTY LTD	12 CHURCH ROAD MOOREBANK NSW 2170	加工企业 PP	婴幼儿配方乳粉 infant formula milk powder	
4	1933	FARMLAND DAIRY PTY LTD	UNIT 1, 360 CHISHOLM ROAD AUBURN NSW 2144	加工企业 PP	婴幼儿配方乳粉 infant formula milk powder	
5	2156	AUSTRALIAN DAIRY PARK PTY LTD	120 FRANKSTON GARDENS DRIVE CARRUM DOWNS VIC 3201	加工企业 PP	婴幼儿配方乳粉 infant formula milk powder	
6	2179	TATURA MILK INDUSTRIES LIMITED	11 BENN COURT DERRIMUT VIC 3030	加工企业 PP	婴幼儿配方乳粉 infant formula milk powder	中国有机产品认证证书号: 0150P1300098 0150P1500115
7	6439	MURRAY GOULBURN CO-OPERATIVE CO LIMITED	SCHUBERT ROAD COBRAM VIC 3644	加工企业 PP	婴幼儿配方乳粉 infant formula milk powder	
8	7278	BLEND AND PACK PTY LTD	6-7 COLRADO COURT HALLAM VIC 3803	加工企业 PP	婴幼儿配方乳粉 infant formula milk powder	

类型: PP-加工企业; Type: PP- Processing Plant;
CS-冷库 CS- Cold Store
DS-非冷藏库 DS- Dry store

备注: 该名单于2014年4月30日第一次公布, 并将根据境外乳品生产企业申请注册的进展情况随时更新。

Figure 2.9. The CNCA list of authorised Australian infant formula exporters as of 13/05/2017

Source: <http://www.cnca.gov.cn/ywzl/gjgnhz/jkzl/imports-list/milk/Australia20161209.pdf>

2.5. Summary

The aim of Chapter Two was to provide the context behind the phenomenon of increased export trade of Australian infant formula to China. It first gave an overview of the Australian dairy industry with a detailed explanation of the industry's value chain, economic contribution, geographical spread and industry associations. The section finished with the identification of key industry events that have affected the Australian dairy industry in recent years. This chapter also identified and explained the new Daigou phenomenon and its effects on the industry. With the advancement of internet technologies and

e-commerce, the Daigou channel is an important distribution channel and shown to be a key influencer in the success and failure of some firms.

From the Chinese perspective, economic and social indicators of increasing wealth and population size indicated that the Chinese market is of significant value to Australian infant formula exporters. The Chinese market is a significant export destination and thus very competitive. In addition, numerous food safety breaches has meant that export trade has rapidly increased, especially following the Melamine Milk Scandal. This chapter has shown that Australian exporters lag behind the major dairy exporting countries. Additionally, this chapter detailed the regulatory dynamism post-2008, and explained how Australian exporters have had to navigate through this dynamic period for market entry. Finally, the chapter detailed some of the numerous changes in legislation, identifying and describing the registration requirements for all dairy exporters to China, especially infant formula exporters. This requirement is a critical success factor for market entry into China.

3. Chapter 3: Literature into the theories and factors for export performance

3.1. Introduction

The aim of Chapter Three is to provide a review of the literature surrounding export performance; it is split into three parts. The first introduces the two supporting theories used to investigate the key success factors for exporting Australian infant formula exports to China. These are (1) the Uppsala Model (UM), the most pertinent theory to investigate the successful incremental path that exporters undertake, allowing firms to gain idiosyncratic resources and capabilities from their export market exposure; and (2) the Resource-Based Theory (RBT) used as a lens to uncover firm-specific resources and capabilities that lead to competitive advantage in exporting Australian infant formula to China.

The second section of this chapter investigates the past determinants of export performance. It provides a brief overview of the three main foreign entry modes and their complexity in international business. In addition, it provides the reasons why some firms export and others do not, as well as presenting a comprehensive overview of the literature on factors for export performance. This section brings together the major publications of the last four decades and is complemented with context-specific literature. The literature chosen provides the key elements that have been shown to be determinants for export performance, with an emphasis on internal determinants. Also included is the literature that is outside the realm of export performance. In particular, this chapter elaborates on the areas of channel partner selection, country-of-origin marketing and product traceability. These additional elements are factors outside the general population.

The third main section uses the Miles and Snow Typologies to provide an analysis of each organisational case study's strategic capability configuration. With the four case studies having a unique business model for exporting to China, the Miles and Snow Typologies provide greater clarity to the findings. Overall, the literature in this chapter provides an overview in helping to answer the research question.

3.2.1. Theories of export performance

Two pertinent theories in international business research were selected in this thesis to elucidate the success factors used by infant formula exporters to China. The first is the Uppsala Model (UM), which is a theory into the successful path that market-seeking organisations undertake when they internationalise. The second is Resource-Based Theory (RBT), which looks at the factors internal to the firm that are required for competitive advantage. These two theories combine the disciplines of international business and strategic management, and the selection and pairing of the two allows for greater understanding of the process and factors for export performance. The details below provide

greater elaboration of each theory, their combination and the reasons behind their selection for this thesis.

3.2.2. The Uppsala Model

The UM, also referred to as the Nordic Model due to its origins in Sweden, is a popular theory on the internationalisation process from an internal dynamics perspective. The theory first sought to understand the motivation of an inexperienced firm to internationalise from a market-seeking perspective (Benito, 2015). While other theories take location economics as a factor for market entry (Dunning, 1980), the UM is deeply rooted in the firm's orientation towards mitigating risk. Eriksson et al., (2000) explains the differences between the UM and the three other popular theories in the literature. These theories – the eclectic paradigm, transactional cost approach and internationalisation theory of the MNE – are all static and do not investigate knowledge accumulated from geographical variation as the UM does. Additionally, the UM assumes that firms have incomplete information, while the other theories assume that perfect information exists and that firms have a high level of international market experience (Steen and Liesch, 2007).

The original UM theorists, Johanson and Vahlne (1977b), presented through a case study approach the pattern by which Swedish exporting firms internationalise. This pattern showed that firms first export to economies most similar to the home country. Reducing foreign market uncertainty is the focal point for these firms, and a greater similarity between home and host means a reduction in the cost of doing business to the firm both economically and socially (Eden and Miller, 2004). Over time, slight gaps in social, cultural and institutional factors between the home and target locations are reduced according to the firm's in-country knowledge and experience. To summarise, Forsgren (2002) explained that the UM is a representation of how tacit knowledge is gained through the incremental penetration of foreign markets.

Figure 3.1 below shows the original UM by Johanson and Vahlne (1977b). The square boxes represent static aspects while the circles are dynamic aspects of the UM. This is representative of all the UM figures below. Starting in the top-right corner, the model first proposed that increased market knowledge affects the firm's commitment decisions, and that changes in the firm's commitment alter the firm's foreign market activities, further increasing its market commitment. In this way, both market knowledge and market commitment are characteristics to the firm that are static, yet only fluctuate in size (as noted by the static tag). Nevertheless, commitment decisions and current activities change in light of new market knowledge (as noted by the change tag). This cycle has a feedback loop that increases knowledge and commitment from every revolution.

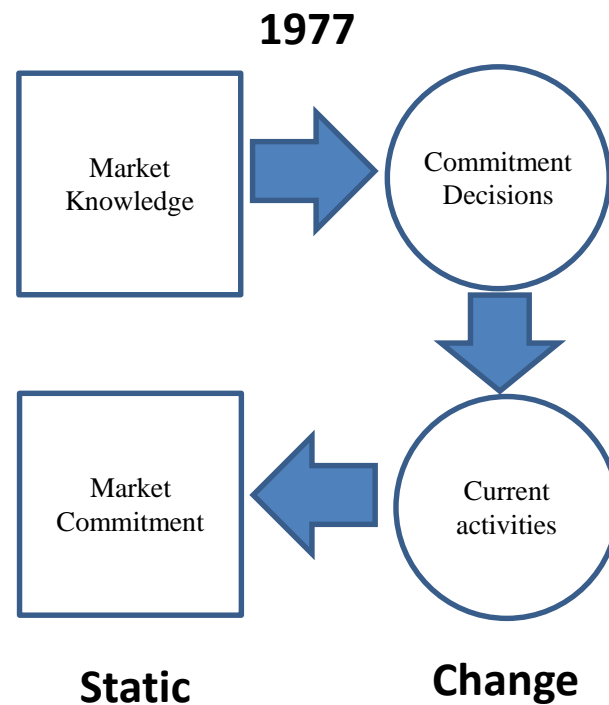


Figure 3.1. The 1977 Uppsala Model

Source: Johanson and Vahlne (1977b)

3.2.2.1. Knowledge as a firm's intangible resource

Drucker (1993) states that knowledge is the greatest resource to an organisation and an important success factor in the export performance discipline (Bilkey and Tesar, 1977, Cavusgil, 1984, Lim et al., 1991, Morgan et al., 2004, Hortinha et al., 2011, Cadogan et al., 2012, Beleska-Spasova et al., 2012, Lisboa et al., 2013, Souchon et al., 2012, Johanson and Vahlne, 1977a, Tookey, 1964). In an export performance setting, such market knowledge is gained through a firm's exposure, repetition and variation during the course of its international business operations (Eriksson et al., 1997).

Casillas et al., (2009) showed four stages of knowledge in the internationalisation process. First is prior knowledge; second is the acquisition of new knowledge; third is the integration of prior and new knowledge; and fourth is knowledge that arises from the experience. The combination of objective and experiential knowledge becomes a powerful tool and a source of great value to the firm, the latter particular so as it is tacit (Eriksson et al., 1997). Tacit knowledge, due to its multitude of inputs, creates causal ambiguity and is unique to a firm, making it difficult to replicate by rivals (Barney, 1991). Lastly, the absorptive capacity of the firm to identify, assimilate and apply valuable information is also an important factor (Cohen and Levinthal, 1990). In the UM, a firm's main knowledge is rooted in their domestic headquarters (Eriksson et al., 2000). This explains why new market selection is carried out so that the informational impost between the new market and home market is the smallest. This makes for

a high level of new market knowledge's absorption, and much weight is therefore placed on the importance of the UM sequential and incremental focus for expansion (Eriksson et al., 2000).

3.2.2.2. Commitment

The UM theorists stated that market commitment is contingent upon two factors (Johanson and Vahlne, 1977b). First is the sum of resources committed to the international venture and second is the degree to which those resources (financial, human etc.) are committed. In the field of export performance, Papadopoulos and Martín (2010) showed that international knowledge and experience lead to a greater level of commitment, as both constructs are foundational to a firm's export performance (Aaby and Slater, 1989, Zou and Stan, 1998).

Navarro et al., (2010) present two encompassing constructs to commitment. These are (1) the attitudinal aspect, as seen by management's willingness to devote necessary resources to its internationalisation effort, and (2) a behavioural construct assessed by the resources which the firm currently dedicates to its internationalisation efforts. The importance of attitude to commitment provides the foundation for all other forms of commitment constructs, as mentioned above. As a strategic factor to the firm, commitment is of vital importance due to its influence on resource allocation, which in turn dictates the strategic direction of the firm (Navarro et al., 2010).

3.2.2.3. Critique of the Uppsala Model

The UM theorists came back to revisit their original work for two reasons. The first was to defend their model of internationalisation against other prominent theories, and the second to add to the original model, as seen in Figure 3.2. A first critique of the UM was carried out against Dunning's Eclectic Paradigm (1980), in which the point is stressed that the internationalisation process is selected based on three elements: (a) the role of a firm's ownership structure; (b) the locational advantage in a host country; and (c) the mode of entry into foreign markets (Dunning, 1980). This is best known as the OLI (ownership, location and internalisation) model. The Eclectic Paradigm (or OLI model) combines economic theories and is dependent on perfect information. Nevertheless, the premise of UM rests on a behavioural approach to internationalisation with the notion of imperfect information (Whitelock, 2002).

Furthermore, the UM constantly attempts to minimise risk by internationalising where absorptive capacity is the highest, through selecting economies where psychic distance is the lowest. Johanson and Vahlne (1990: 17) further posit that the Eclectic Paradigm predicts that actors optimise rationally while the UM places ambiguity in the centre, assuming that no optimisation will occur.³⁵ While the Eclectic

³⁵Similar to Schumpeter's notion that there is no equilibrium. In addition, there are striking similarities between the UM and Schumpeter's famous description of circular flow of economic life. The premise refers not to any absence of change but rather asserts that change is unremitting, and employs the analogy that, through constant adaptation through innumerable small steps, a department store is created out of a small retail business (Magnusson, 1994).

Paradigm is more suited to firms with greater knowledge resources, the UM is suited to firms with an absence of foreign market knowledge (Steen and Liesch, 2007). Lastly, the UM is a market-seeking theory while the Eclectic paradigm seeks locational advantages through resource-seeking (Benito, 2015).

3.2.2.4. Evolution of the Uppsala Model

After the original 1977 model, four revised models of the UM have been developed to incorporate the new realities found by the theorists. These revised models are the 1990, 2009, 2012 and 2013 iterations. Each is presented below and shows fundamental changes in the focal firm's internationalisation process, resources and capabilities, shown in the knowledge acquired by the firm through its market networks. Furthermore, the firm is shown to evolve from focus on gaining market information to an emphasis on building learning capability. This move signifies a transition from rational to behavioural theories of market knowledge.

3.2.2.5. The 1990 Uppsala Model

The 1990 UM is the first revision of the 1977 UM and moves away from an internal focus on knowledge accumulation. The focal firm's networks in a foreign market are the centre of knowledge creation (Johanson and Vahlne, 1977b, Johanson and Vahlne, 1990). By including foreign networks, Johanson and Vahlne (1990) posit that firms are not standalone figures but are tied together through the bonding of technical, social, cognitive, administrative, legal and economic relations. This was a new reality for which the UM theorists had to accommodate (Axinn and Matthyssens, 2002). Referred to as 'industrial networks', the research showed that firms participate in a limited set of relations within these industrial networks (Johanson and Vahlne, 2003, Johanson and Vahlne, 2009, Johanson and Vahlne, 2011, Vahlne and Johanson, 2013). Moreover, network relations can be found in customers and suppliers (who are the primary source of relations) who have their own customer and supplier relations, and so on. This almost infinite bonding creates a web of contacts that can be leveraged, thereby increasing potential for the firm's knowledge.

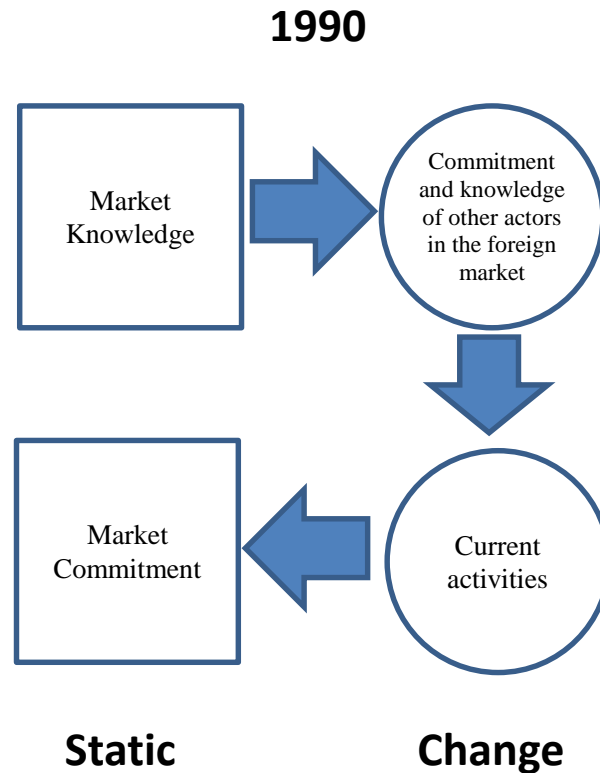


Figure 3.2. The 1990 Uppsala Model

Source: Johanson and Vahlne (1990)

Johanson and Vahlne (1990) expand the UM by moving information acquisition from an internal source to the focal firm's level of engagement in an industrial network. Beginning in the top-right corner of Figure 3.2 above, the new UM goes from market knowledge (static) to commitment and knowledge of other actors in the foreign market (dynamic). This alters the firm's current activities (dynamic), thereby modifying the level of commitment the firm has to the foreign market (static). Nevertheless, one major failure exists from this new UM model. The theorists failed to explain how knowledge is gained and exported internally for further international expansion (Forsgren, 2002).

The effects of adopting a network approach for the focal firm are significant. Håkansson and Snehota (1989) state that the implications of the network approach are twofold. Firstly, sovereignty of one's resources would be relinquished through the integration with network partners. Secondly, the firm would have to increase its reactivity because the network will mainly influence the focal firm. Hence, understanding how the firm is embedded into the network becomes vital. The inclusion of networks shows the importance of understanding the interconnectedness with which the focal firm operates.

The UM theorists discuss with greater nuance the firm and its engagement within foreign market networks. While the 1990 UM remains, Johanson and Vahlne (1992: 10) describe the nature of networks as constantly being in a state of flux. In light of knowledge being ever changing, the theorist's state that

these interconnected relationships are symbolised by continuity, multiplicity and specificity in order to meet a network's dynamism. At the organisational level, the theorist's state networks are mainly the domain of middle management, thereby offering a gateway to other actors within the network. Ultimately, success is contingent on finding the right partner (Johanson and Vahlne, 1992).

With partner selection being the conditional factor for success, post-1990 UM sees an increase in the focus on relational aspects of the firm's network embeddedness. As Johanson and Vahlne (2003: 93) posit, the network partnering process is one of incremental knowledge of each other's needs, resources, strategies and business contexts. Trust becomes a factor of extreme importance, especially at the beginning of the relationship (Johanson and Vahlne, 2009). Research by Han (2006) indicates that internationalised start-ups require positive experience with their partner to build greater mutual trust and respect. Furthermore, Han (2006) states that these positive relations mean that the focal firm requires fewer resources at the beginning of its internationalisation process. This makes trust an important aspect, especially for SMEs who suffer from liability of smallness (Lu and Beamish, 2006).

Increased network interaction brings the relational aspect to the fore. Johanson and Vahlne (2003: 93-94) show three types of learning a firm can gain from network involvement. The first is acquiring partner-specific knowledge. The second is transferring old partner knowledge to a new partner, thereby assessing the similarities and differences, which also becomes a form of due diligence. The third is where the partner learns from the focal firm and transfers the knowledge to another firm. When the focal firm combines the above factors, both its network-building capabilities and the control of each other's resources increase, producing heterogeneous and valuable relations (Johanson and Vahlne, 2006).

Lastly, commitment in the 1990 UM moves from market commitment to relational commitment within the network, measured by the level of resources allocated (Johanson and Vahlne, 2003). Network commitment, as Steen and Liesch (2007) state, compels firms to become path-dependent as resources are directed and integrated with a firm's network partners. The advantage of relational commitment is the production of market opportunity capabilities (Johanson and Vahlne, 2006). The theorists describe the idiosyncratic resources of the focal firm combined with the resources outside the firm as critical for capturing emergent opportunities, mainly due to the privilege of 'inside information'. The overall emphasis for the firm is to reduce the liability of its foreignness.

3.2.2.6. The 2009 Uppsala Model

The UM theorists realised that a firm's learning capabilities are just as much an internal factor to the firm as externally through its network relationships (Johanson and Vahlne, 2003). The original uncertainty-reducing orientation signified in the earlier UM was replaced with opportunity-seeking orientation for the new UM. This meant that acquisition of knowledge became redundant and the capability to learn became the important factor for the focal firm (Johanson and Vahlne, 2009). In this

way, the liability of foreignness that was created by the psychic distance between the firm and the foreign market was shown to no longer prevail (Johanson and Vahlne, 2009). The 2009 UM extends this theory by placing greater emphasis on the firm and its entrenchment into a foreign market network. The success factor of the focal firm is the advantage of being embedded within a foreign market network, so as not to squander the opportunity to acquire valuable network resources. The lack of embeddedness of the firm in a foreign market network has it at risk of suffering a liability of outsidership, as opposed to previous UMs stressing the liability of foreignness.

Figure 3.3 below provides a new UM, taking into consideration the latest findings. Knowledge opportunities replace market knowledge (static), affecting relationship commitment decisions (dynamic) and altering learning and knowledge creation as well as trust-building (dynamic). This adjusts the focal firm's network position (static). As stated above, the emphasis has moved away from the firm and the foreign market network as two separate entities.

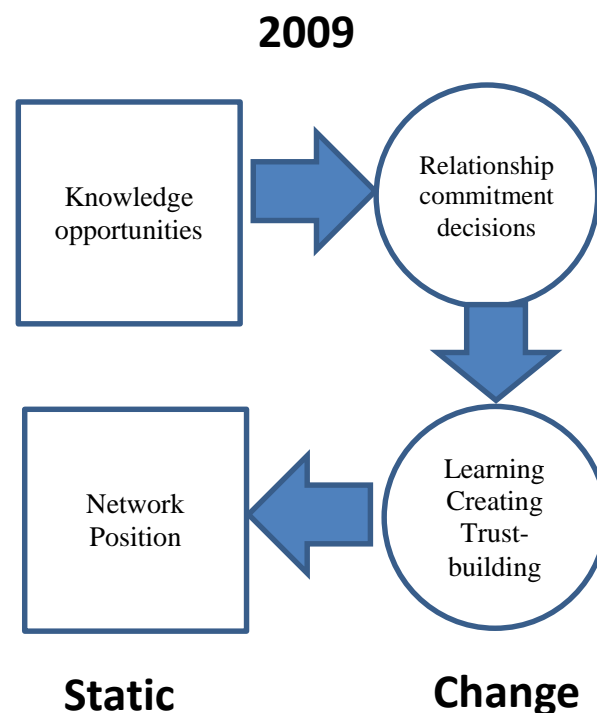


Figure 3.3. The 2009 Uppsala Model

Source: Johanson and Vahlne (2009)

The 2009 UM also redefines the firm's existence in a foreign market network as a mere actor in a larger ecosystem, hence the reliance of networks. Noting one basic, Håkansson and Snehota (1989) posit that opportunities cannot be created but exploited, as they exist with or without the firm's presence in the network. Håkansson and Snehota (1989) advocate the importance of knowledge opportunities within

the network. This latest UM deems multilateral relations essential for knowledge development and building relational commitment, which leads to joint strategy development between network relations (Johanson and Vahlne, 2011).

3.2.2.7. The 2012 Uppsala Model

The last two adaptations of the UM, the 2012 and 2013 versions expand the notion of the firm to incorporate headquarter and subsidiary relationship within foreign markets activities. The theorists take in the reality of the firm made up of internal networks with headquarters as axis and the foreign market subsidiaries as boundary actors. The 2012 UM enhances the assumptions that have been built on through the 1977, 1990, and 2009 versions (Vahlne et al., 2012).

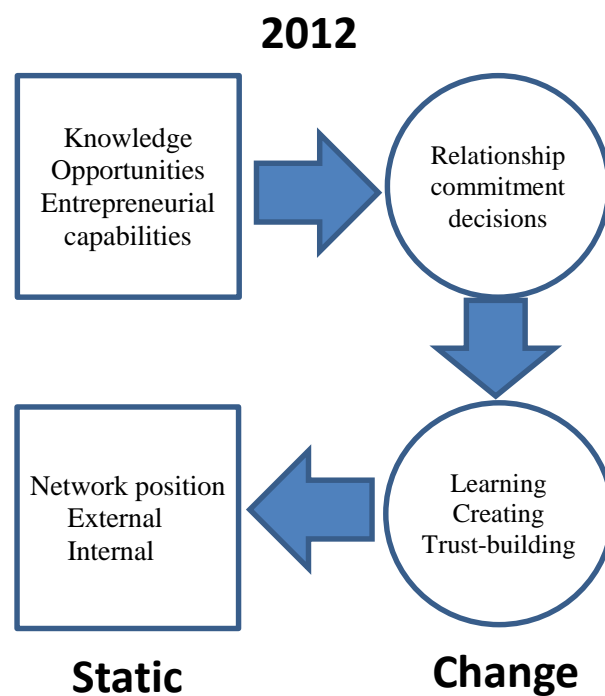


Figure 3.4. The 2012 Uppsala Model

Source: Vahlne et al., (2012)

Figure 3.4 above builds upon the 2009 UM. While knowledge opportunities remain, the addition of entrepreneurial capabilities is included (static), altering the relationship commitment decisions (dynamic). The latter shapes the learning, knowledge creation and trust-building capabilities (dynamic) to shape both the firm's internal and external network position (Vahlne et al., 2012). The latter assumes that the firm is a multinational, hence the division of networks. An interesting aspect of the Vahlne et al., (2012) UM is entrepreneurial capability. Bhatti et al., (2016) conceptualise learning as contingent on subsidiary managers as agents for knowledge, in much the same way as the entrepreneurial

capabilities included in the 2012 UM. These entrepreneurial capabilities stem back to the realisation by Johanson and Vahlne (1992) of the importance of middle management as network gatekeepers. The entrepreneurial capabilities component is the most revolutionary component in the 2012 UM. Its main point is the realisation that knowledge and learning transfers from the firm to the individual under the overall theme of opportunity-seeking.

3.2.2.8. The 2013 Uppsala Model

In the last version of the UM in 2013, Vahlne and Johanson (2013) discuss learning opportunities based on multinational enterprise. The focus here, as with the 2012 UM, is on the firm's integration of multiple networks, both internal and external. With the 2009 UM beginning the shift from neo-classical factors of success to a more behavioural economic standpoint, the 2013 UM firmly entrenches the shift from gaining market knowledge to building learning capabilities. The 2013 UM firmly cements the dynamic capability theory of the firm's resource base in line with behavioural aspects. Nonetheless, the theorists posit the clear realisation that markets are in disequilibrium (Johanson and Vahlne, 2009).

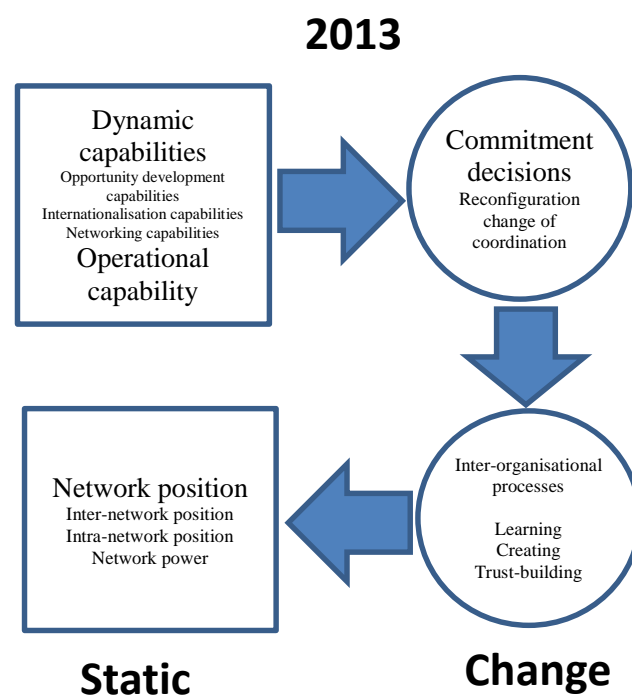


Figure 3.5. The 2013 Uppsala Model

Source: Vahlne and Johanson (2013)

Figure 3.5 above is a depiction of the UM's approach to balancing the firm in market disequilibrium by demonstrating greater nuance in both the static and the changing components. Beginning in the top-right corner, two factors become static: (1) the firm's dynamic capabilities, consisting of opportunity development, internationalisation and networking capabilities, and (2) the firm's operational

capabilities. These static capabilities alter the firm's commitment decision (dynamic) by modifying a firm's resources, their volume and allocation. The inter-organisational processes (changing) of learning, creating and trust-building are altered by the firm's commitment decisions. Lastly, the firm's network positions (static) also show increased nuance with a firm's intra- and inter-network position, as well as the firm's network power. As noted above, the inclusion of dynamic capabilities provides in-depth insight into their control over the firm (Vahlne and Jonsson, 2016). While much is discussed around the behavioural aspects of knowledge accumulation, the 2013 UM brings dynamic capabilities theory into line with the UM's learning process.

3.2.2.9. Section summary

The above provides a synthesised description of the UM's evolution from its inception in 1977 until 2013. As the original proposition has the firm as a standalone actor in a foreign market, its aim was to minimise the risk of unfamiliarity and uncertainty. This was achieved by internationalising sequentially to countries similar to the home market. Knowledge here was the key to reducing information deficits. Nevertheless, the 1990 UM introduced networks in foreign markets and the task of the firm to engage within them in order to increase their knowledge.

From the period of 1990 until 2009, the theorists incrementally began to change the focus of the firm from an ethos of risk mitigation to opportunity-seeking. The 2009 UM showed the most revolutionary shift, with knowledge acquisition replaced by market learning. From 2009 until 2013, the UM took this ethos and developed the firm's capabilities to capture these changes. Furthermore, as the UM shifted focus, reallocating the capabilities of the firm was carried out in light of the environment being in disequilibrium. Moreover, the pre- and post-2009 UM saw a move from a neo-classic assumption to one of greater behaviour aspects, taking in the reality of a dynamic environment. Lastly, the firm's liability became contingent on its foreign market relations, rather than on the resource and capabilities internal to the firm.

3.2.3. Resource-Based Theory

The aim of this section is to introduce Resource-Based Theory (RBT) from the field of strategic management. While the UM above describes the process for successful internationalisation, the RBT provides the lens into the internal factors allowing this to be achieved. In an attempt to understand the RBT, its origins are discussed, showing research beginning in the early part of the twentieth century, and including the 1980s, in which RBT research increased, with an internal focus on competitive factors. A generic overview of the RBT is explained with contrarian views. This provides readers the ability to conceptualise what are and what are not resources and capabilities that generate greater rents against rival firms. In the field of export performance, RBT provides the capability to distinguish the internal determinants needed for success.

3.2.3.1. *Origins of the RBT*

While the 1980s provided an era of increased research into strategic management, firm-level research began well back in the earlier part of the twentieth century. Internal determinants of an organisation were introduced first by Coase (1937), who examined market dynamics and the functioning of an organisation within it. Nevertheless, research into the importance of internal determinants of an organisation's success is heavily attributed to Edith Penrose's 'The Theory of The Growth of the Firm' published in 1959. Penrose's authorship saw a focused attention on firm-specific attributes to growth (Lockett, 2005, Pitelis, 2007, Thompson and Wright, 2005). Her seminal work is seen by many as the foundation to today's RBT. Penrose was the first to introduce resource heterogeneity and a firm's unique characteristics as key aspects to an organisation's growth. We define the latter in modern terms as 'competitive advantage'.

Penrose (1959: 132) describes resources as possible services that are brought together and organised in an administrative framework. The author provides examples of the resources a firm accumulates as both tangible and intangible assets. In the modern day, these assets, to name a few, could be technological IP, human and financial capital, networks, machinery and organisational culture (Wernerfelt, 1984, Barney, 1986). Kaleka (2012) describes resources as the stock of inputs used to develop processes, while capabilities are the processes which lead to the firm achieving their strategic objectives. While resources are both tangible and intangible, it is again the latter, especially centred on intellectual capital, that is truly valuable (Teece, 2014).

Penrose explains that this pool of resources and capabilities functions under an administrative framework, and allowing their exploitation minimises their redundancy. A consequence of such action is the expansion of the organisation. This revitalisation creates new resources, leading firms to become heterogeneous (Pitelis, 2009). Central to Penrose's argument is the suggestions that when investigating the growth or its lack of within an organisation, scholars should focus on an holistic study into the range and nature of activity (Penrose, 1959).

In modern times, RBT is unquestionably one of the most popular theories in the discipline of strategic management (Portugal Ferreira et al., 2016). The theory is grounded in the neo-classical school of economics, with only slight differences in the elasticity of resource accumulation (Barney et al., 2001). The theory has been used to assess the internal dynamics of the firm within many contexts due to its neutrality. Its modern origins trace back to Wernerfelt (1984), who suggested that researchers shift the focus towards organisational research with particular attention to the internal dynamics of the firm. Before this period, research was heavily influenced by environmental and industry analysis. Michael Porter typified this era with the famous and ever-present Porter's Five Forces model (Wernerfelt,

1984)³⁶. Wernerfelt's suggestion was when analysing a product, an organisation's internal determinants should be investigated with as much focus as its environmental aspects. For a while, the environmental, industry and firm's factors created a pendulum of shifting theories. The delicate nature of arguments in the field of strategic management demonstrates the conundrum that researchers faced (Hoskisson et al., 1999).

3.2.3.2. *RBT, its elements and sustained competitive advantage*

Following on from Wernerfelt (1984), Barney (1986) began research into the internal prerequisites for sustained competitive advantage (SCA). RBT begins with the notion that a firm with superior resources than its industry rivals can lead to SCA. Barney (1986) indicated that when a firm's resources are valuable, rare and imperfectly imitable (VRI) they become the prerequisites for SCA. The VRI classification was first applied to research into organisational culture as a factor for SCA, and begins the elemental identification of SCA as well as the evolution of RBT. VRI research applying RBT in the late 1980s started to increase the focus of the firm's internal dynamics (Chatterjee and Wernerfelt, 1988, Barney, 1989, Singh and Montgomery, 1987, Liberman and Montgomery, 1988).

RBTs popularity grew significantly, largely due to the seminal piece by Barney (1991) on SCA and its internal factors for success. Barney (1991) builds upon the research of his previous 1986 work (Barney, 1986), where SCA is described as being contingent upon resources and capabilities that are valuable, rare, imperfectly inimitable and non-substitute (VRIN). Additionally, the VRIN model is transformed by replacing, in some instances, non-substitutability (N) to organisation-wide (O). The latter, referred to as the VRIO (Barney and Wright, 1998), is mainly used to evaluate intangible resources such as corporate culture for SCA (Klein, 2011). Nonetheless, the VRIN became most popular with increased research.

Barney (1991) closely analyses the VRIN to explain in logical sequence how SCA is achieved. First, 'Valuable' (V) describes the situation when a firm's resources create rents above their cost of retention. The margin between the rent extracted and its holding cost dictates the value of the resource (Bowman and Ambrosini, 2007). While margin is subjective, logic dictates that the larger the margin, the greater the value. 'Rare' (R) is the unavailability of the same resources by the firm's rivals. 'Imperfectly inimitable' (I) is the impervious deployment of the firm's resources, capabilities and strategies from being replicated by competitors. Barney (1991) refers to this as 'causal ambiguity'. While King (2007) acknowledges that causal ambiguity occurs because organisations are intrinsically messy, intentionally creating barriers further weakens competitors simulating a successful strategy (Reuer et al., 2012).

³⁶ The framework by Porter (1980) consisted of five industry factors for success, which stipulates that a firm's superior strategy is contingent on these five areas of control. When firms manipulate supply chains ex-post and ex-ante they increase entry barriers for rivals for which industry competition is decreased. A final aspect is contingent on the unlikelihood of substitutes for the firm's product or services taking hold, which makes organisations capable of seeking higher rents.

Finally, 'Non-substitutable' (N) is when the valuable, rare and imperfectly inimitable resources cannot be exchanged by other value-creating resources. The VRIN becomes the lens that theorist use to assess whether a firm's resources and capabilities are what lead it to achieving SCA.

Meeting the requirements for VRIN leads firms to be positively heterogeneous amongst their peers (Barney, 1991), as first touted by Penrose (1959). In other words, if a firm is a market leader, by logic so too are its resources. By researching these resources, scholars have shed light on the internal dynamics that lead to SCA. While the above explains how to calculate VRIN resources, a contrarian viewpoint allows for what does *not* qualify for VRIN status. Disqualification of valuable is when resource and capability accumulation is done at a low cost amongst numerous competitors (Barney and Hansen, 1994). This low cost is due to low margins between the retention cost and the rent extracted (the opposite of the above discussion on value). Rarity disappears as resources and capabilities of low value become easily acquired. With ease of resource accumulation, antecedent factors can be obtained easily, thereby narrowing the inability to mirror a firm's strategy. Overall, understanding the cues and inputs required to mimic a rival's strategy helps to reduce causal ambiguity (King, 2007). This is a key factor in the imperfect inimitability of resources in SCA. Lastly, with ease of resource acquisition and increased imitability, the need for substitutes would be unnecessary due to ease of resources procurement.

From an industry-level standpoint, Peteraf (1993) leverages Barney (1991) to highlight the cornerstone of SCA. To Peteraf (1993), the foundations of competitive advantage consist of four sequential factors. First, a firm's resources and capabilities are heterogeneous, extracting superior performance against industry rivals. Second, limiting competition through a firm's restrictive mechanism halts rivals from imitating or substituting its competitive position. Third, a firm's resources are untradeable. Here competitive advantage is achieved when the value of a firm's resources and capabilities is greater within the firm than in the marketplace. Fourth is that market competition is stifled by higher returns and lowered cost from the firm's strategy.

In contrast to Peteraf's (1993) analysis, below shows what does not create SCA from the four factors above. When resources are uniformed, competition ex-post is unrestrained, along with perfect factor mobility. This means that resources and capabilities are easily transported within the industry, making rivalry high due to unlimited competition ex-ante. The Peteraf (1993) example of industry SCA corresponds with the Porter Five Forces Model (see footnote 56 above for the Porter Five Forces description).

What can be deduced from the above is that firms seeking SCA require internal resources and capabilities that are assumed to be heterogeneous and immobile amongst rival firms. The merging of tangible and intangible resources is achieved by an organisation's competence in harnessing and transforming these distinctive resources, and by making them impenetrable and fixed to the firm (Gao

et al., 2009). The consequence of this is that the value created produces rents that are above average (Peteraf, 1993).

3.2.3.3. *Criticisms of RBT*

While RBT is a major contributor to the field of strategic management, some scholars have contended that the theory might have run its course (Portugal Ferreira et al., 2016, Kraaijenbrink et al., 2010). Most notable is the work by Priem and Butler (2001a: 36), who first suggested that integrating other demand-orientated perspectives would aid the RBT's understanding of SCA. Likewise, Kraaijenbrink et al., (2010) state that the shortcoming of RBT is its simplistic view of the firm comprising of internal resources rather than a more holistic picture of the axis-periphery relationship.

As Priem et al., (2013) contend, markets are in constant disequilibrium due to heterogeneity of customers, consumers and organisations. Criticised for being static, RBT would be much better served with a boundary model of strategic management for greater understanding (Priem and Butler, 2001a, Priem et al., 2013). Penrose (1959) inadvertently states the same when she discusses the need for resources to be worked in order to minimise their redundancy. This greater understanding would be best served by integrating a demand-side perspective.

In addition to the demand-side view, the static component of RBT is also a matter of contention. While RBT outlines a firm's requirements for SCA through horizontal immobility and heterogeneity, how this was done in dynamic markets was still absent (Eisenhardt and Martin, 2000). Theories such as Dynamic Capabilities Theory have since come to complement RBT in strategic management research, as seen in the evolution of the UM above.

In addition, a more serious charge of tautology by Priem and Butler (2001b: 64) was noted, arguing that RBT in its present form is a theory of sustainability and not a theory of competitive advantage. The scholars use Karl Popper's dictum of $p \rightarrow q$ to state that a relationship must be true by logic. In their criticism, the scholars applying the $p \rightarrow q$ statement argue that definition must be in the same terms, such as resources that are valuable and rare lead to competitive advantage. This is the case if competitive advantage is defined as the firm increasing its efficiency and or effectiveness through valuable resources that are in themselves efficient and effective (Priem and Butler, 2001b: 58). Nevertheless Priem and Butler (2001b) do not believe that the definitions are the same.

Moreover, Priem and Butler (2001b) posit that in strategy formulation, a firm's resources have two functions. First, they need to show what they can do and second what they must do to meet market requirements. Furthermore, to the researchers, the elemental fallacy of RBT is also a criticism. The assertion is that the value of the firm's resources is dictated by external forces. This issue is one of the significant drawbacks that has been noted of RBT as a standalone theory (Teece, 2014).

A further issue regarding RBT that Priem and Butler (2001a) bring up is the issue of equifinality. Equifinality can be described as having the same end or result.³⁷ Barney et al., (2001: 2001) claim that if strategic substitutes do not exist, then competitive advantage is possible. Furthermore, they explain that the different formation of resources that organisations undertake may lead to the same outcome. On equifinality, Priem and Butler (2001a) state that firms who are differentiated within an industry will pursue different strategies and if they achieve their set goals then no firm can claim SCA.

Additionally, Kraaijenbrink et al., (2010: 365) evaluate the criticisms of RBT and identify eight³⁸ factors, out of which three warrant greater attention. The first is the need for a clear definition of what a resource is, what it isn't, and what resources firms need. Though there is a mention above by Barney (1991), Penrose (1959) and Kaleka (2012), vagueness still exists. Second is the subjective nature of value. As Bowman and Ambrosini (2001: 501) express, value can be seen in three ways: (1) the perceived use value, where customers assess a resource's worth due to its suitability; (2) the total monetary value or what are customers prepared to pay; and (3) the exchange value or the realisation of value when marketed. The final criticism takes into account the first and second points above, that the VRIN/O framework is not necessary and sufficient for SCA. The researchers posit that a greater insight into how resources and capabilities are attained and handled for SCA would provide greater assurance to becoming more generalised.

3.2.4. UM, RBT, export success and their rationale

The UM describes the internationalisation process that organisations undertake, but little reference to the mode of entry in a foreign market is discussed (Whitelock, 2002). Nevertheless, the original research by Johanson and Vahlne (1977b) was based on Swedish exporters with entry mode selection based on the balance of risk and market entry approach. The UM later sees market entry contingent upon a number of factors internal to the firm, with psychic distance and staffing playing a significant role in the 2009 UM (Vahlne and Johanson, 2013). While no direct link between the theory and export performance exists, the basis of this thesis is on the export mode of entry.

The popularity of RBT is shown in the export performance literature as the most pertinent theory from three meta-analyses for assessing the internal determinants for success (Chen et al., 2016, Sousa et al., 2008, Zou and Stan, 1998). The overwhelming evidence suggests that RBT is still pertinent in the field of export performance and highly applicable to this thesis. This aspect is discussed in detail below in the export performance of the firm.

Before RBT was conceived as a theory to investigate organisational-level competitive advantage, the UM's theory of firm specific factors needed in its mode of internationalisation provided this lens. If

³⁷ <https://en.oxforddictionaries.com/definition/us/equifinal>

³⁸ For a breakdown of all eight please refer to Kraaijenbrink et al., (2010) Table 1 page 360.

RBT had existed before the 1977 UM, knowledge and commitment would have been considered VRIN factors. Although it was not until the 1990 UM, the theorists cite Penrose (1959) as a theoretical base identifying the growth attributes of the firm stemming from its knowledge accumulation (Johanson and Vahlne, 1990). While the seminal piece by Barney (1991) came after the 1990 UM, ex-post RBT becomes a fixture in subsequent UMs.

The link between the theories shows the importance of the firm's assets to its internationalisation process. Johanson and Vahlne (2006) link the heterogeneous accumulation of resources from the UM to RBT. Furthermore, these UM theorists draw attention to the idiosyncratic resources firm's gain from network interaction in their 2009 work (Johanson and Vahlne, 2009). Lastly, Vahlne and Johanson (2013) apply RBT by referring to the VRIN when knowledge of the focal firm is localised and not available to outsiders.

Vahlne and Johanson (2013) understood that the RBT's role in the UM had saturated. A new theory was needed that would provide a deeper analysis of the resource and capability interplay, so the theorists advanced the UM to include Dynamic Capabilities Theory (DCT) for elucidating the firm's resource base as it adjusts to environmental changes. In reviewing the evolution of the UM, the sequential approach is clearly demonstrated with resource and capabilities first revealed (RBT) and their interplay then explained (DCT). To the theorists, the greater the value created by a firm's dynamic capabilities, the greater they become VRIN (Lin and Wu, 2014). Though RBT had run its course in exploring internal determinants, it did provide the mid-point.

3.2.5. Section Summary

The aim of this section was to introduce the theories that shed light into the success factors for exporting Australian infant formula to China. The first was the UM of incremental internationalisation that is dictated by first psychic distance then evolving into market knowledge accumulation and building learning capabilities. The literature above shows its evolution and the factors that firms must meet in order to succeed. The second theory is RBT, which identifies the resources and capabilities that lead a firm to competitive advantage. While criticisms are highlighted, the literature shows that the two theories are complementary and most applicable to answering the research question.

3.3. Export performance of the firm

The aim of this section is to introduce and summarise the literature on internationalisation with an emphasis on export performance. The literature begins with an overview into the general topics on entry modes. Next the literature delves into the field of export performance with a detailed examination of the findings in the field. Additionally, the literature on country of origin marketing, channel partner selection and product traceability is also reviewed. Overall, the section presents the factors for success in export performance.

3.3.1. Characteristics of exporting and non-exporting firms

Why some firms export while others don't is a question that has been long posed in international business literature, and a variety of factors have been identified. In a study by Bernard and Jensen (2004), two significant aspects were found. The first was the firm's manufacturing capabilities, and the second the firm's past performance. Findings by Westhead (1995) on SMEs' reasons for exporting revealed a maturity in the firm's principle founders, as well as a domestic environment that had considerable competition for scarce resources. Yaprak (1985) showed that firm size and propensity to export were factors, due to larger firms having a higher tolerance for risk. Conversely, Keng and Jiu (1989) presented domestic market preoccupation and product incompatibility to international markets as the inhibitors for non-exporters. From a strategic management perspective, Burton and Schlegelmilch (1987) identified changes in organisational, managerial and attitudinal characteristics when firms began exporting. While different firms have differing reasons for exporting, these firms do have similar behavioural and structural qualities, as will be shown below in the determinants for export performance.

3.3.2. Entry modes

Before this chapter examines the factors for export performance, a discussion on foreign market entry modes is required. Pan and Tse (2000) declare that entry mode selection is reliant on a firm's internal and external factors, and furthermore, that a close association is required between variations in resource commitment, risk exposure, control and profit return. Three main modes of internationalisation are used by a firm with exporting, contractual/equity joint ventures and wholly owned subsidiaries (WOS) as the most popular. Figure 3.6 provides a depiction of the entry modes, commitment and risk/return.

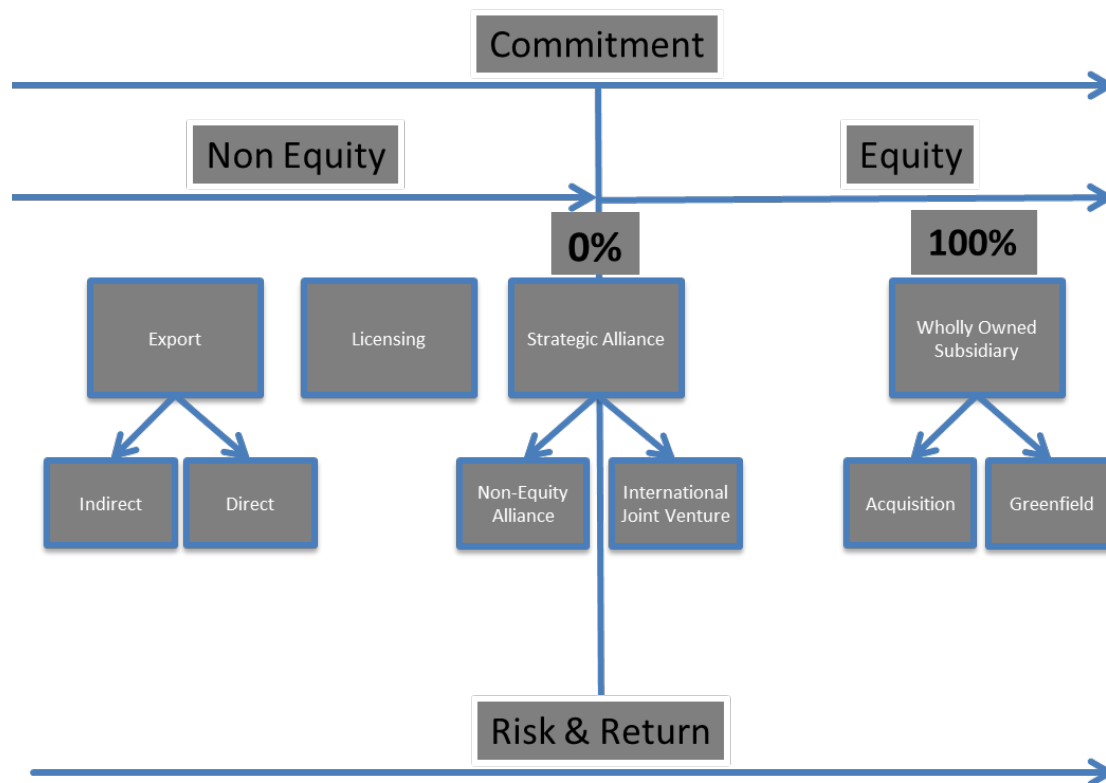


Figure 3.6. Entry modes, commitment, equity structure and risk/return

Exporting represents the first major foreign entry mode and is conducted as either or indirect³⁹ or direct. Exporting is characterised by the firm's major resource and capability base, located in the domestic market from which it exports its goods or services. Firms utilise this mode of entry to gradually penetrate an international market without taking too many risks (Ireland et al., 2008). Furthermore, this method allows the firm to increase their foreign knowledge incrementally (Johanson and Vahlne, 1977b). The export entry mode above all others has the lowest sunk costs with labour, stock supplied and expenditure on logistics making the bulk of the expenses.

The second major entry mode is the use of contractual/equity joint ventures also known as strategic alliances. This requires organisations in foreign markets to partner formally with one or more host country entities. As the names suggest, the relationship is either in a contractual form or is an equity joint venture. Figure 3.6 above depicts this entry mode as having increasing risk, return and commitment. This entry mode is mainly centred on partner selection and the partner's management.

The third entry mode is the wholly owned subsidiary, where foreign firms have 100% owned operation in a host country. This can be achieved in three ways: (1) greenfield entry, (2) through acquisition, (3) by conversion from a joint venture. Operational control is a central theme. With the phenomenon being based on the exporting of Australian infant formula, the other entry modes play a secondary role.

³⁹ Indirect exporting commonly is done through a domestic intermediary who assumes most risk

The initial behaviour of exporters was shown by Reid (1981) to have five sequential stages in the export adoption process. Stage One is the awareness of a problem or opportunity. The firm's managerial experience, exposure and market information, along with their performance and quality credentials, are therefore the key factors at this stage. The second stage is the firm's export intention. This stage sees managerial attributes to market entry and expectations, along with the firm's goals and resource base, being assessed. Stage Three is the export trial, where personal experience, order solicitation and increases in managerial and financial resources are required. Stage Four is export evaluation, where export engagement results and profit/sales are analysed. Stage Five is export acceptance or rejection. Acceptance is seen in either/or the firm increasing its exports as a percentage of sales, new market entry, absolute export growth or new product introduction.

While the literature alludes to a dichotomous approach towards market entry characterised by internal and external factors, its true nature is much more complicated. An accurate depiction is one of multiple entry modes, with Benito et al. (2009: 1455) describing the foreign market entry process as a 'messier' reality. The researchers describe entry mode selection by firms as a choice between multiple approaches that best suit a firm's strategy. Furthermore, Benito et al. (2011) show that organisations combine differing entry modes and variations in their weighing. As Pan and Tse (2000) suggest, the choice and weighing are determined by the firm's internal and external factors.

Based in China, Benito et al. (2011) provide a depiction of this cluttered reality. The research presented a firm with a wholly owned subsidiary, along with contractual joint ventures in their operations with local value chain partners. Van Hoek et al. (2006) in their research showed that multiple mode combinations were used by their Finnish case studies in their selection of distributors in China. Furthermore, this research showed that joint ventures and exports were combined to achieve the strategic objectives of the firm. Also, the Freeman et al. (2012) research showed, through a sample of Australian exporters, the selection of multiple entry modes. These exporters had initiated joint venture partnerships with their value chain partners. While traditional literature analyses suggest the selection and maintenance of one entry mode, the reality highlights a more complex picture (Benito et al., 2009).

3.4. Export performance literature

While the above discusses the entry modes and characteristics for exporters, this section aims to present the factors for export performance. The discipline of export performance owes greatly to the fields of strategic management and international business. Much like the general literature on strategic management, a firm's success in a foreign market will depend on its ability to satisfy the needs and wants of its customers (Sousa and Filipe Lages, 2011). Nevertheless, the approaches organisations take to reaching export success differ remarkably, and include opposing orientations, definitions of customers along with resources and capabilities required. In light of these differences, scholars agree that a firm's export performance must be analysed as a function of the fit between its environment and

the selected export marketing strategy (Lages and Sousa, 2010). This is very much in consensus with the general literature on strategic management.

Exporting is the oldest and still the most popular mode of foreign market entry. The area of export performance can be traced back to the work of Tookey (1964), who investigated the success factors of hosiery exports from the UK. The researcher asserted that market knowledge is the significant determinant to export performance. Theories such as the UM are based on the exporting behaviour of firms (Johanson and Vahlne, 1977b). Since Tookey (1964), knowledge has remained a static theme within export performance (Bilkey and Tesar, 1977, Cavusgil, 1984, Lim et al., 1991, Morgan et al., 2004, Hortinha et al., 2011, Cadogan et al., 2012, Beleska-Spasova et al., 2012, Lisboa et al., 2013, Souchon et al., 2012, Johanson and Vahlne, 1977a). This theme is consistent with general management research stating knowledge as the defining premise for any organisation's success (Drucker, 1993).

Research in the field of export performance has been abundant, allowing scholars the fortune and opportunity to collate findings and present them periodically in the form of meta-analyses. This thesis uses five major meta-analyses as the underlying literature for assessing export performance.⁴⁰ They span from 1978 to 2016, with Table 3.1 below providing the key findings from the 2006-2014 meta-analyses and the key findings.⁴¹

The most recent of these meta-analyses by Chen et al., (2016), as seen in Table 3.1 below, provides the most interesting results in four major ways. The first of these was the use of 124 papers in this analysis, significantly more than the others. This shows a noteworthy increase in relevant research post-2008. Second is the increased size and scope of the determinants mainly as a consequence of the increased research. The third is the increased research outside the Western context which has dictated discourse for numerous decades. Fourth is the inclusion of new theories as well as the pairing of theories to explain export performance. What this latest meta-analysis has shown is an increasing amount of research in the field and in the level of sophistication at attempting understand export performance.

Firm-level characteristics

⁴⁰ The selection of these papers is due to not only the quality of the publications but also to the buttress of dates between each paper, meaning no overlapping and a seamless integration with Aaby and Slater (1989) 1978-1988; Zou and Stan (1998) 1988-1998; Sousa et al., (2008) 1988-2005 and; Chen et al., (2016) 2006-2014. The fifth paper is by Sousa (2004) on measures of export performance between 1998-2004.

⁴¹ There have been more meta-analyses published, such as that by Chetty and Hamilton (1993) on firm-level determinants from 1978-1991, by Leonidou et al., (2002) on marketing strategy determinants of export performance and by Wheeler et al., (2008) on UK SMEs' export performance from 1990-2005.

<p><i>Export marketing strategy</i></p>	<p>Price adaption (9), promotion adaption (9), product adaption (8), distribution strategy adaption (7), cost leadership strategy (3), differentiation strategy (3), promotion strategy (3), using consultancy programme (3), distribution support (2), eco-friendly marketing (2), marketing tactics adaption (2), strategic fit (2), adaption to customers (1), branding strategy (1), business strategy (1), competitive positioning (1), customer integration (1), degree of born globalness (1), differentiation focus strategy (1), distribution strategy (1), export strategy (1), green tangible investment strategy (1), hybrid strategy (1), implementation effectiveness (1), influence strategy (1), international internet marketing strategy (1), long term contract strategy (1), market entry mode (1), outsourcing strategy (1), relationship marketing activities (1), segment strategy (1), service adaption (1), strategy development modes (1), sustainable export marketing strategy adaption (1), work process standardisation (1).</p>
<p><i>Firm characteristics</i></p>	<p>Firm size (22), firm export experience (18), export commitment (17), financial resources (10), internationalisation degree (10), cost leadership (9), ownership (9), Human capital resources (8), firm age (6), product life cycle stage (6), affiliation (5), innovation product (5), positional performance (5), competitive advantage (4), knowledge-based resources (4), relationship performance (4), export dependence (3), export intensity (3), product/service quality (3), productivity (3), scale resources (3), trust (3), cultural resources (2), FDI spill-over (2), past performance (2), product characteristics (2), sales volumes (2), tangible assets (2), targeting performance (2), technological resources (2), training (2), attainment discrepancy (1), brand advantage (1), business partnerships (1), centralisation (1), channel characteristics (1), communication quality (1), coproduction instructions (1), cultural sensitivity (1), export activity stage (1), export divisions (1), export personnel (1), export policies (1), export regularity (1), export segmentation (1), firm location (1), firm relational resources (1), foreign direct investment (1), formalisation (1), green export-related resources (1), importer role performance (1), investment support (1), organisational slack (1), outside direction ration (1), production subsidies (1), productivity-enhancing spill-overs (1), reception of unsolicited orders (1), region-oriented (1), representative autonomy (1), representatives' support (1), service advantage (1), skill level of employees (1), strategic focus (1), structural organicity (1), value of imported inputs (1).</p>

<i>Firm capabilities</i>	Market orientation (13), network capability (9), innovative capability (8), R&D expenditure (7), information capability (6), communication capability (5), coordination (5), entrepreneurial orientation (5), product development capability (5), relationship capability (5), marketing capability (4), planning capability (4), technological capability (4), advertising expenditure (3), control (3), customer orientation (3), R&D intensity (3), knowledge management (2), market research capability (2), quality capability (2), technology orientation (2), adaptability to changes (1), complementary capability (1), customer acquisition (1), differentiation competencies (1), export memory (1), finance exporting capability (1), human resource development capability (1), image enhancement, information and communication technology (1), international orientation (1), IT proficiency (1), knowledge acquisition (1), learning capabilities (1), manufacturing flexibility (1), market responsiveness (1), physical presence (1), power (1), pricing capability (1), resource inimitability (1), response to export information (1), strategic orientation (1).
<i>Management characteristics</i>	International experience (8), propensity (6), education (4), managerial commitment (4), age (3), time spent abroad (3), conservation value (2), cross-cultural skills (2), foreign language skills (2), gender (2), managerial cooperation (2), managerial ties (2), risk taking (2), cultural intelligence (1), frequency of visiting foreign market (1), global mindset (1), immigrant (1), international knowledge (1), job satisfaction (1), knowledge transfer (1), management control (1), management team heterogeneous (1), managerial orientation (1), manager's performance (1), morale level (1), relatives (1), returnee (1), rewards (1), sales manager performance (1), self enhancement (1), shareholding (1), strategic thinking (1), tenure (1).
Industry-level characteristics	
	Technology turbulence (4), industry concentration (3), technology environment (3), hi-tech industry (1), industrial export orientation (1), industry adaptation (1), industry export orientation (1), industry technological intensity (1), sector (good/service) (1), technology assistance (1), technology gap (1).
Country-level characteristics	
<i>Domestic market</i>	Domestic demand (2), export assistance (2), local market characteristics (2), infrastructure quality (1), institutional environment (1), legal quality (1).

<i>Foreign market</i>	Competitive intensity (18), psychic distance (10), market dynamism (9), regulatory environment (6), cultural distance (4), customer characteristics (4), environmental difference (4), economic environment (3), geographic distance (3), information availability (3), infrastructure (3), cultural environment (2), environmental conditions (2), environmental volatility (2), export barriers (2), institutional environment (2), market development (2), regulative distance (2), sociocultural environment (2), bilateral trade (1), business distance (1), business environment (1), customs and traditions (1), economic environment (1), financial crisis (1), government intervention (1), government relationship (1), infrastructure distance (1), language distance (1), location level factors (1), market foreignness (1), market industrialised level (1), market munificence (1), normative distance (1), potential demand (1), public environmental concern (1).
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Table 3.1. Major determinants of export performance from 2006-2014

Source: Chen et al., (2016)

One aspect that has remained constant from the overwhelming results is that manufacturing remains the industry type, as shown in the meta-analyses for Chen et. al (2016), Sousa et. al (2008) and Zou and Stan (1998). With the history and tangibility of the research mainly on the manufacturing sector's export performance, this constant provides greater authority as to the evolution of the findings from each meta-analysis. While the shortage of research into exporting services provides a gap in the literature, these findings bode well regarding their applicability to this thesis. As the thesis is centred on manufactured infant formula from Australia, these factors have applicability to the determinants required.

While the industry type is an advantage to this thesis, a negative is the context in which the research was conducted. Chen et al., (2016), as well as the others before, do not distinguish between the determinants and the context. The pooled determinants are a-contextual, even though the study by Chen et al., (2016) points to an increased research of Chinese context research. While research from a Western setting may have similarities, especially from an institutional level, the inclusion of emerging markets, especially China, can alter and expand these factors. As has been shown in Chapter Two, China's hybrid economy of a centrally planned free market is a structure that does not exist within the Western world. This has significant implications to the firm because external and internal factors play a crucial role, as highlighted above by Pan and Tse (2000).

Another negative point arising from the literature is the overwhelming bias regarding the methodological choice of researchers. The field of export performance has been heavily biased towards

quantitative methods over the qualitative research approach for over the last forty years (Aaby and Slater, 1989, Zou and Stan, 1998, Sousa et al., 2008, Chen et al., 2016). The overwhelming use of quantitative approaches is a cause of the contextual bias highlighted above. With much of the ‘low hanging fruit’ gone, opportunities to apply a qualitative methodological approach have narrowed, mainly due to impactful research in a Western setting significantly narrowing, and rendering this approach somewhat obsolete. While international business scholars have advanced the need for qualitative studies (Doz, 2011), this matter doesn’t seem to be an agenda item for export performance scholars. Nonetheless, the emergence of the developing world, past gaps in the literature and unique phenomenon such as the one on which this thesis is based, provide the necessary settings for qualitative research.

Theory in the field of explaining export performance is also a crucial aspect of the topic. The field from a theoretical perspective has grown to include many theories that try to explain export performance, including those based on behaviours, relationship marketing and transaction cost. Nevertheless, export performance is a research area that takes in both internal and external factors. These factors are independent, mediating and moderating, making the degree of ambiguity high. It is from these factors that there still lacks an export performance theory that is all-encompassing (Chen et al., 2016).

Previous theoretical contributions to the field by Zou and Stan (1998) indicate two main theories that best explain export performance. For the internal determinants, Resource Based Theory (RBT) was applied. For external determinants Industrial Organisation (IO) Theory best explains the external factors that affect a firm’s strategy and export performance. Findings by Wheeler et al., (2008)⁴² also concur with the Zou and Stan (1998) findings, and results by Sousa et al., (2008) put forward RBT as the theory to best explain the internal determinant. Nevertheless, understanding the environmental effects on a firm’s export performance was best explained by the Contingency Paradigm/Theory (CT). This results again in the limited dichotomous use of theory for explaining export performance, much like the literature of the past.

Nevertheless, the latest meta-analysis by Chen et al., (2016) showed a significant increase in breadth and depth of theory application. While the above shows a singular use of theory for each internal and external determinants, the latest meta-analysis shows an explosion of theory usage. The use, development and contribution towards theory display a greater level of sophistication in trying to understand the determinants of export performance. Much like the research of the past, the context is of a Western nature. Nonetheless, with the emergence of developing economies and their unique characteristics, the simplistic use of theory was replaced with a more sophisticated approach. The reason

⁴² The Wheeler et al., (2008) article is also a meta-analysis however it has been given limited inclusion due to it being an investigation of the export performance of SME’s in the UK. In this thesis three of the four case studies were large sized entities. However some of the findings from this paper can be drawn upon as they can be applied to organisations irrespective of size.

for the emergence of research in emerging economies has much to do with significant macro-economic events such as the integrated globalised system of free trade. While no mention of these macro-economic factors is discussed as an element of causation, the increased research on export performance and these events does warrant an association.

A look into the theory used in the latest meta-analysis by Chen et al., (2016) still shows RBT as having the highest theoretical frequency of understanding internal determinants, but other theories also make significant contributions. These include CT, the institutional based view (IBV) and organisational learning theories. In sum, a total of forty-two theories have been applied to export performance research. Another significant finding by Chen et al., (2016) highlights the integration of multiple theories. This aspect is a new finding that no previous meta-analysis showed. This contribution has brought the field closer to understanding export performance. One example is the multiple use of RBT and IBV to provide a dyadic view of internal and external determinants of export performance. The pairing of the two theories is especially useful in understanding export performance in an emerging market context. In addition, both RBT and CT were applied to investigate the fit between internal and external factors for export success. While the use of multiple theories again displays a greater level of sophistication from scholars, it comes with a caveat from Chen et al., (2016), that researchers should be careful of negatively pairing theories and their combinations due to each theory having different focuses. As such, the use of combined theories may be inconsistent or conflicting with the objective of creating a conceptual framework.

In light of the shortfalls discussed above, the area of export performance in the last decade has seen an increase in scope and sophistication. Nevertheless, one major criticism of the field is the lack of a definition for export performance. As Chen et al., (2016: 629) state, there is no uniformed and implemented conceptualisation and operationalisation of export performance exists. Sousa et al., (2008) concur by stating that the lack of a definition is a result of the field being so fragmented. While Shoham (1998) attempted to provide a conceptual and operational definition at the firm level, it has remained absent in the major literature. This void in the research is acknowledged by most scholars in the field as arguably its greatest impediment to development.

A final criticism from the review by Chen et al., (2016: 627) on the current literature around export performance highlights three major research problems: (1) the diversity of findings, which indicate few in-depth studies, (2) the fragmentation of results due to analytical techniques and methodological approaches, and (3) the inconsistency of results from conflicting studies. These factors indicate that the field is still immature (Sousa et al., 2008); meeting the above criticism would go a long way to advancing the field of export performance.

While significant literature in the field of export performance exists, the studies selected in this chapter are widely cited and provide an accurate depiction of the field. With the abundance of research, the

below will detail the most pertinent determinants from the literature to fit within the context of this thesis. The reader should note that this thesis is an investigation into a phenomenon and not a gap-spotting exercise.⁴³ Significant gaps between the literature and power to explain the phenomenon are present, hence the reason for this thesis.

3.4.1. Determinants of export performance

Understanding the determinants of export performance requires the analysis of many factors, some internal to the firm and others outside its borders. Zou and Stan (1998) explore this when categorising determinants of export performance, not only from an internal and external perspective but also on whether they were controllable or not by the firm. This means that controllable factors can be manipulated by the firm while uncontrollable factors require absorption and navigation. Although many models of export performance exist, Figure 3.7 below provides a simplistic model courtesy of Katsikeas et al., (2000). These researchers use three independent and two intervening variables to explain the main mechanisms that lead to export performance. Background variables are independent and exist on three levels. The managerial factor at the individual level focuses on the characteristics of the decision-maker within the organisation. Organisational factors are centred on the firm's resources and capabilities and how they are adjusted to meet its strategic direction. Environmental factors are the external influences on both domestic and international markets that affect organisational and managerial aspects. The managerial and organisational factors are mostly controllable, while the environmental is most uncontrollable to the organisation (Zou and Stan, 1998).

The second type of variables in Figure 3.7 are those which are mediating and nestled between independent and dependent. These intervening variables are sequential and consist firstly of targeting factors such as the selection of one or more international markets, and secondly the marketing strategy that firms undertake by using elements of the marketing mix (product, price, place and promotion) to achieve export performance.

The last type of variable is the outcome (or dependent) variable, commonly referred to as export performance, and is the aggregate or sum total of the background and intervening variables. Overall, the managerial, organisational and environmental factors, along with the targeting and marketing strategy, lead to the firm's export performance. While the above provides an introduction into the topic, each part is elaborated further so as to provide a greater understanding of each factor.

⁴³ This is detailed in the research methodology of Chapter Four.

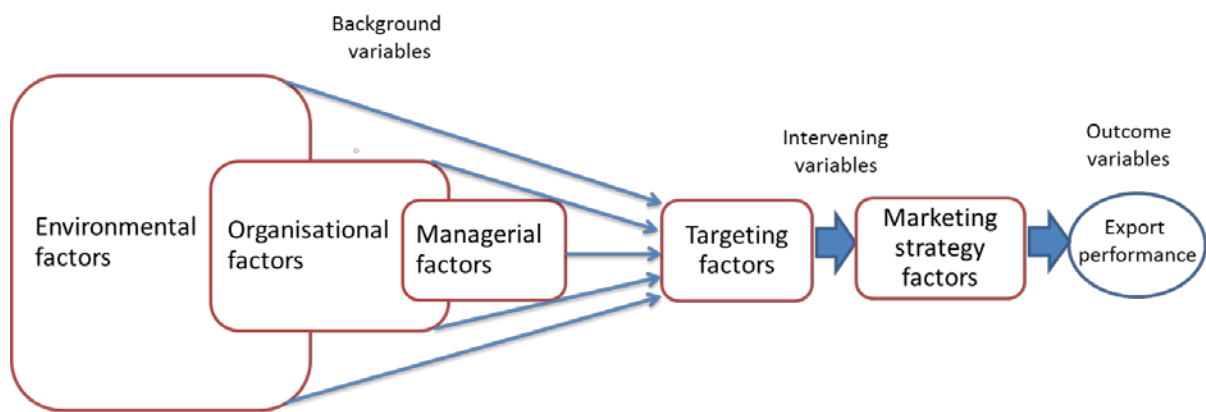


Figure 3.7. Rudimentary model of export performance

Source: Katsikeas et al., (2000)

3.4.1.1. Independent or background variables

The independent or background variable in a firm's export performance is autonomous and consists of environmental, organisational and managerial factors. In the same order, these factors become increasingly controllable by the firm. The details and descriptions of each are further elaborated below.

Environmental factors: Environmental factors are the macro-economic forces that shape the strategy of the focal firm, and are the product of both domestic and overseas factors (Katsikeas et al., 2000). In export performance, context dictates these dynamics. Three aspects affecting this variable are the industry/market, foreign market and domestic market characteristics. While the field has expanded, as discussed above, the literature over time has only shown slight variations in these environmental factors. Chen et al., (2016) presented industry/market characteristics studied as industry adaption, industry concentration and technology-related variables. Nevertheless, only technological development was shown to improve the commitment of the whole industry, with the possibility of increasing the individual export performance of the firm. Earlier research by Wheeler et al., (2008) and Zou and Stan (1998) also showed technology intensity as a positive predictor of export performance,⁴⁴ although they were the only researchers to find industry instability as a positive influence on export sales.⁴⁵

The second aspect, that of foreign market characteristics, has shown competitive intensity by Chen et al., (2016) as the most popular finding. Conversely, results by Sousa et al., (2008) found the legal and political environment as the most cited factor in influencing a firm's export performance. Wheeler et al., (2008) indicated perceived export market attractiveness, export market barriers and market turbulence as factors influencing a firm. Lastly, Zou and Stan (1998) showed market competitiveness,

⁴⁴ The Wheeler et al., (2008) paper is also a meta-analysis on export performance, but is from a UK context and for SMEs. While not included as a part of the main literature, it does prove useful.

⁴⁵ The meta-analyses by Sousa et al., (2008) did not have this factor in their findings.

export market attractiveness and export barriers (including both physical and psychological) in their findings. Psychological barriers as a key determinant was a factor also reported in the Sousa et al., (2008) meta-analysis. Chen et al., (2016) showed that a great deal of attention was paid to psychological or psychic distance, indicating a positive link between psychic distance and export market adaption. Nonetheless, this was not a significant factor to export performance. This is an area of much research and one that will be discussed in greater detail below.

The third aspect is that of domestic market characteristics. Chen et al., (2016) identified domestic demand, export assistance, local market characteristics, infrastructure quality, legal quality and institutional environment as factors researched. Sousa et al., (2008) in their study showed export assistance and environmental hostility as key influencers, whilst Zou and Stan (1998) showed national export policies, domestic market pressure, currency devaluation and domestic market attractiveness as stimuli. Lastly, the findings by Wheeler et al., (2008) agreed with all the above. Wheeler et al., (2008) also added the factor of positive contribution to firms when in a cluster or in relative regional proximity, a geographical factor which was also supported by Freeman et al., (2012) for SMEs within an Australian context. The latter's research showed location as a source of competitive advantage when seeking supply, government agencies assistance, export-related services, infrastructure, human resources and networking opportunities.

Organisational factors: Organisational as well as managerial factors (discussed below) are the most important determinates in export performance, as they are internal and most controllable by the firm (Zou and Stan, 1998). Furthermore, this aspect is also the most studied antecedent factor in export performance. Chen et al., (2016) divide organisational factors into four categories: export marketing strategies, firm characteristics, firm capabilities and management characteristics. The inclusion of firm capabilities is a new addition from the latest Sousa et al., (2008) meta-analysis. Other sources such as Wheeler et al., (2008) include competencies and strategies, while Zou and Stan (1998) include firm characteristics and competencies. Irrespective of titles, they all fall under the organisational factor.

Zou and Stan (1998) explain that a firm's characteristics are a consequence of its export performance. These features (such as firm size and age) are uncontrollable in the short-term, as they require the development of internal competences over a relative period of time. Chen et al., (2016) on firm characteristics for export performance indicate that export size and export experience are positive characteristics of export performance. Sousa et al., (2008) found that international experience was a positive to export performance, although firm size as a positive determinant was still undecided⁴⁶. The questionability of firm size was also emphasised by Wheeler et al., (2008), in concurrence with the

⁴⁶ One of the reasons the researchers attributed inconsistencies to the findings was due to the non-uniform method of categorising a firm's size.

above finding. The focal firm's size provides an indication of its pool of resources and is positively correlated.

Wheeler et al., (2008) also found that a firm's age and financial resources have a positive effect on export performance, but showed the technology aspect as inconclusive. This conclusion as to the questionability of technology may be in part due to the product offerings of the firm. The example used in the research showed computer software as being globally homogeneous and marketed in economies of comparable level. Zou and Stan (1998) found the same firm characteristics as Wheeler et al., (2008), namely a firm's level of technology, size and general characteristics. These general characteristics were its life cycle stage, nature of the product (consumer vs industrial) or the nature of the firm (manufacturer or intermediary), similar to the discussion in the export marketing strategy detailed below.⁴⁷ Nevertheless, the researchers established the findings to be inconclusive and having limited explanatory power. These latter aspects tie in with the technology findings of Wheeler et al., (2008), where the product/context plays a significant role in assessing the importance of technology.

Firm capabilities and competencies are a central theme for the competitive advantage of the firm and are critical elements in export performance (Chen et al., 2016, Sousa et al., 2008). These capabilities are the determinants that control the performance of a firm's export venture due to their level of control by management (Zou and Stan, 1998). The earlier work by Sousa et al., (2008) shows variables such as resource commitment, customer relationships, product uniqueness, product quality, and responding quickly and with flexibility to market change as the most cited and key determinants. Zou and Stan (1998) present human resources and functional capabilities as important determinants of export performance, while Aaby and Slater (1989) reveal technology intensiveness, export policy, planning, market knowledge, stages in export adoption process, management systems, quality control, and communication capabilities as factors for export performance.

Chen et al., (2016) indicated export market orientation as the key capability to export market success. Export market orientation was first highlighted by Sousa et al., (2008) as a new positive determinant as well as predicting its growing importance for export success. To Sousa et al., (2008), market-orientated firms are those who gather, internalise and act upon market and environmental information. This conclusion was in line with their finding that market knowledge has significant influence on the export performance of the firm. The knowledge theme was discussed above as a key factor in the internationalisation process of the UM. Market orientation as a key determinant was not a feature of the research by either Wheeler et al., (2008), Zou and Stan (1998) or Aaby and Slater (1989) and is a key turning point in the literature. This aspect signifies the growth of intangible factors to success and is

⁴⁷ This is very much in the same light as the discussion above in the export marketing strategy factors the nature of the firm and its strategic fit to the context.

supported with the emergence and increased use of knowledge-based theories in the development of the field (Chen et al., 2016).

The market orientation of the firm has a significant effect on a firm's success, as its importance precipitates the actions of the firm. Market orientation is a capability that can be aligned with a firm's export market strategy for positive results. One such example by He et al., (2013) displays the positive effects of a firm's market orientation when aligned with its selected export channels. From a Chinese perspective, the resources and capabilities extracted from a heightened level of market orientation have been shown to have positive attributes, and when integrated internally into a firm's supply chain, they become critical factors for a firm's export marketing strategy (Qu and Ennew, 2003, Liu et al., 2013).

Market orientation in conjunction with an export marketing strategy is positively linked to the success of the firm. Narver et al., (2004) revealed that the complementary nature of when a firm proactively focuses on a market orientation for its value product offerings would be a greater competitive advantage. Grunert et al., (2005) draw the same positive link between market orientation and heterogeneous product offerings, a conclusion which is also supported by Tokarczyk et al., (2007), Ngo and O'Cass (2009) and Sousa et al., (2008), who all showing market orientation and a value-seeking strategy leading to competitive advantage in the export performance of a firm (Barney, 1991).

Technological orientation was also noted as a key resource for firms in their export performance success (Chen et al., 2016), although this should not be confused with the technological characteristics above. While Zou and Stan (1998) noted a majority of positive findings regarding the technological level of the firm, there were also some negative and non-significant findings, prompting further research. Aaby and Slater (1989) also reported mixed findings on the importance of technology. Wheeler et al., (2008) shed light on this inconclusiveness by stating that different industries and markets have different competitive advantage implications regarding technology. Findings by Hortinha et al., (2011) suggest that technology orientation is inversely moderated by a firm's level of customer orientation in response to poor performance. Overall, the advice by Wheeler et al., (2008) is the same as mentioned above in the context section. Discussion should take in both the industry and the firm's strategic capability configuration when studying technology within homogenous industries.

Managerial characteristics: Management factors are crucial to a firm's export performance and include the characteristics of the decision-makers in terms of demographic, experience and behaviour (Chen et al., 2016, Katsikeas et al., 2000). While no significant findings were highlighted by Chen et al., (2016), Sousa et al., (2008) showed that top management's commitment to exporting is a key factor in the success of the firm. In addition, managers' international experience was shown to lead to positive export performance. The advantages that firms gain from this is due to the managers' understanding of international markets and their ability to detect opportunities and threats. International experience was also supported by Wheeler et al., (2008), whose findings reveal that international orientation and

perceptions, motivation and commitment through favourable and supportive attitudes have positive effects. The latter is a significant factor in the UM (Johanson and Vahlne, 1977b). The same research conversely showed management's perception of export barriers as having a negative effect on the export performance of the firm.

An earlier study by Zou and Stan (1998) sided with the findings above. Additionally they found that perceived export advantage from managers was another positive to export performance, although this is contrary to the Wheeler et al., (2008) finding above on the negative perception to export barriers. The findings by Wheeler et al., (2008) imply that the behavioural attitudes of management affect a firm's export performance. A positive outlook, with top management teams focusing on the advantages of exporting rather than the disadvantages, was shown to positively affect both financial and non-financial measures. Lastly, results by Aaby and Slater (1989) provide support for management's commitment to exporting, positive perception and attitude towards exporting. This is in accordance with all of the above.

3.4.1.2. Intervening variables

This section discusses the two intervening variables as shown in Figure 3.2 above. The first refers to targeting factors and the second to the firm's export marketing strategy (the former being less important in this thesis than the latter). As the unit of analysis is based on a single product/venture, targeting factors are more to understand the multiple market entry factors for the firm. Nevertheless, the targeting factors provide useful background information to other parts of this chapter. The export marketing strategy, on the other hand, is a key feature in this thesis, and is where the firm's resources and capabilities are brought together to produce a strategy for success. The following will further detail these factors.

Targeting factors: Although target factors receive little attention, they are important and require discussion. Katsikeas et al., (2000) state that the targeting factors of international markets are in relation to the identification, selection and segmentation of the export market. Leonidou et al., (2002) describe export targeting as the number, type and segmentation activities in export markets. Also Brouthers and Nakos (2005) showed that Greek SMEs with a systematic approach to market selection had a positive export performance over unsystematic approaches. The literature above is out-dated with little in the way of new contribution due to saturation in findings.

Another market selection criterion is psychological distance. This aspect is of critical importance and a topic of much discussion in the field of export performance. While cultural distance relates to observable social and institutional distances between a home and host country, psychic distance refers to the lacuna between the individual and the market (Sousa and Bradley, 2006). Research by Dow (2000) on Australian exporters showed that psychological distance played a crucial role in market

selection, with psychic distance lowering significantly between the first and second market entries. Brewer (2007) also states that psychic distance is a key factor for market selection. This is discussed above together with environmental factors.

Psychic distance is a significant factor to an organisation, requiring it to be understood and strategised in order for export performance efforts to become successful. This notion of psychic distance is referred to as the sum of factors preventing the flow of information from and to the market (Mazzola and Kellermanns, 2010). Differences include language, education, business practises, culture and industrial development, with this distance between home and host country influencing both entry mode decision and process (Sarstedt et al., 2011, Luo, 1999). Kogut and Singh (1988) state that irrespective of how superior organisations are at replacing the skills of traders by international extension, dominant country culture will always influence management. The UM was built upon the notion that firms begin their internationalisation process into economies similar to the home country (Marinov and Marinova, 2012). Findings by Chen et al., (2016) indicate the important role psychic distance plays to the positive outcome on a firm's adaption strategy to its marketing mix.

While the targeting factors discussed above relate to market identification and selection, segmentation aspects are also considered of significant importance. Research by Leonidou et al., (2002) regarding the expansion activities of firms (which consists of market concentration and market spreading) shows market concentration as a positive of overall export performance success, achieved through superior market and distributor knowledge. In addition, market spreading and segmentation featured positively in the same study, and the latter was further segmented to include customer variations and the corresponding marketing strategies for each. Research on targeting strategies for emerging markets by Sakarya et al., (2007) showed five key factors for success are future potential, manageable level of cultural distance, local industry development, and support and openness for foreign products and business. He and Wei (2011) revealed that Chinese manufacturers used their market orientation capabilities to select their markets with positive results.

As stated above, much of this research is more applicable to studies where the unit of analysis is firm-wide and not at the venture level. Venture-level research has no requirement for market spreading and is more orientated towards market concentration.⁴⁸

Export marketing strategy factors: This refers to the marketing strategy that a company adopts in a foreign market with its augmentation of marketing mix variables (e.g. export product, pricing, distribution, promotion strategies) (Katsikeas et al., 2000). These export marketing strategy factors fall

⁴⁸ The selection of venture-level analysis is discussed in Chapter Four.

under the remit of the organisation, since they are totally controllable. A firm's export marketing strategy is achieved when there is a match between the internal characteristics of the firm and the external environment (Wernerfelt, 1984). These characteristics are a firm's skills, resources and managerial preferences, which are manipulated by the competitive intensity faced in the light of the environmental opportunities on which it seeks to capitalise (Sousa et al., 2008). Taking advantage of these opportunities, a firm can have strategies that are either standardised, adapted or a hybrid of both that fits the context (Cavusgil and Zou, 1994).

Studies by Chen et al., (2016), Sousa et al., (2008), and Zou and Stan (1998) show that sustained competitive advantage is achieved when organisations fit their strategy effectively to the context. Sousa et al., (2008) go on to discuss the importance of industry characteristics in the formulation of a firm's export marketing strategy. Citing chemical versus metal working industries, the researchers state that the former could achieve better performance through standardisation, whilst the latter could achieve superior performance through adaption. Much as the literature above shows, a firm's business model dictates its strategic capability configuration (whether it is a B2B or B2C model) plays a crucial role. Furthermore, each business model has a different consumer with different strategic objective so their behavioural intentions play a significant role for the firm.⁴⁹

In research by Chen et al., (2016), antecedent factors to a firm's export marketing strategy showed that the strategic approach of either adapting or standardising a firm's marketing strategy was most discussed. Nevertheless, the findings were inconsistent. In the same vein, Sousa et al., (2008) discussed the appropriateness of fitting marketing strategy to context. Antecedent factors for export marketing success by Wheeler et al., (2008) showed that a strategy for exporting, export diversification strategy and multiple entry modes improved export performance, and that deliberate planning and organisation may also lead to export performance. Deliberate planning and organisation is supported by Sousa et al., (2008), as well as Zou and Stan (1998). Logic dictates that an organisation orientated towards being proactive in export markets should be positively associated to export performance. This notion suggests that proactive firms have greater awareness of both internal and external factors and are positively associated with export performance.

With regards to marketing mix, several studies have highlighted similar results. Zou and Stan (1998) showed that product adaption, product strength, promotion intensity, channel relationship and price adaption are important determinants of export performance. Leonidou et al., (2002), in their meta-analysis on export marketing strategy determinants, showed three factors relevant to this thesis: product, distribution and promotion. For product, branding and a firm's export performance had a significant positive effect. Within the context of this thesis, Danone's (the French dairy multinational) export

⁴⁹ See strategic configurations and the Miles and Snow Typologies below.

marketing strategy in China was an adaption and customisation strategy to meet the local conditions, and shown to be a successful branding strategy (Melewar et al., 2006).

For distribution, Leonidou et al., (2002) showed four aspects of positive export performance. First was the use of a representative and/or office and direct buying. Second was that of sustainable dealer support with mutually beneficial initiatives.⁵⁰ In this aspect, Sousa et al., (2008) and Wheeler et al., (2008) found that channel relationships provide strong indicators to export performance. The advice was for a firm to build long-term relationships with its supply and value chain partners, so as to leverage external networks and resources (Wheeler et al., 2008, Sousa et al., 2008). The third aspect was delivery time efficiency as a key factor for positive export performance. Finally, the fourth factor was adjusting a firm's channel design in response to changes in business environment (institutional, economic and physical) and distribution infrastructure (intermediaries, outlet types and channel functions). Within the context of this thesis, the effects of e-commerce are one such example. Adjusting a firm's distribution strategy was shown to have positive impact on export performance. This was shown in product adaption, communication and distribution efficiencies which facilitated greater distribution support and improved price competitiveness (Gregory et al., 2007).

3.4.1.3. Measures of export performance

As shown in Figure 3.2 above, all background and intervening variables lead to a firm's export performance. As a dependent or outcome variable, export performance is measured by either economic or non-economic indicators (Katsikeas et al., 2000). With the field having limited conceptual and operational definitions as discussed above, a consequence of such fragmentation has given rise to an abundance of measures to assess export performance, which is cited as a major criticism (Sousa, 2004, Chen et al., 2016) and echoed by Sousa et al., (2008). The inconsistency in the export performance measurement as a whole is a longstanding issue in the field (Zou and Stan, 1998).

In light of the shortfall in measuring export performance, research has been extensive. A meta-analysis by Sousa (2004) provides a glimpse of the multitude of measures used to assess the export performance of the firm. Sousa (2004) displays export performance measures in two parts: (1) economic measures, which are divided in two sections, covering objective economic measures (sales, profit and market-related) based on a firms' financial data, and subjective economic measures (sales, profit and market-related), primarily based on the perceived performance of respondents; and (2) non-economic measures categorised under general and miscellaneous measures. Overall, the findings identify 50 measures for export performance. Chen et al., (2016) show that export profitability, export sales growth, export sales

⁵⁰ The literature suggests that initiatives such as business consulting, market research assistance, sales training, missionary selling and financing and cooperation in advertising.

and export intensity are the most employed economic indicators. The most employed non-economic indicators were satisfaction with export performance and export goal achievement.

The results by Zou and Stan (1998) displayed three ways to measure export performance. They are economic, non-economic and composite scales, much like in the findings above. The results showed that economic factors fall under the sales classification, with absolute volume of export sales and export intensity measuring overall export profitability. A growth classification measured economic changes over time. In the non-economic measures, three sub-scales were identified. The first was the success classification measure (which is a manager's belief of the success of export contribution to the firm's overall profit and reputation). The second was the satisfaction classification measure (a manager's approval of overall export performance). The third sub-scale was goal objectives classification measure (performance compared to objectives). Also, composite scales were used to measure the overall export performance of the firm and mainly consist of export sales and profits. Composite scales were most popular amongst the findings by Zou and Stan (1998).

In summation, the above provides a concise but detailed overview of the literature into the determinants of export performance. The assistance of Figure 3.2 above, along with the literature, shows the major factors that contribute to the export performance of the firm. In light of the volumes of research available, the shortcomings, especially regarding a definition and Western centrism provide further avenues for research in the field.

3.4.2. Partner selection

While this thesis is confined within the boundaries of export performance, the term 'partner selection' is applied frequently to address actors within the context of this research. The export performance literature is scant in suggesting that partner selection is a determinant in export performance. Nonetheless, in the UM, the term is a critical success factor in post-1990 UMs with the inclusion of networks. As Johanson and Vahlne (1992) posit, partner selection and relationship maintenance is the key success factor in the UM. This is very much in line with the findings above regarding the distribution aspect of the firm's export marketing strategy.

Within the literature, Nijssen et al., (1999) positively link the partner selection process in emerging economies to a firm's export/import activities. Nevertheless, this research does not show an actual link to export performance. Likewise, the major meta-analyses have no mention of partner selection or any similar concept (Aaby and Slater, 1989, Zou and Stan, 1998).

Nonetheless, from an export entry mode perspective, early research by Beamish (1987: 33) introduces the term. This research focuses on partner selection in joint ventures in less developed countries, linking partner selection with better export opportunities. Nevertheless, the Beamish research draws no direct link between partner selections as a positive for export performance success. While the term 'partner'

is applied sparingly and vaguely in general export literature, its deliberate use within the context of China presents a link between partner selection as a success factor for export performance in China. He et al., (2013) apply the term ‘partner’ frequently in their research on individual Chinese exporters, their chosen channel partners, and their export performance. Additionally, Chadee and Zhang (2000) show Guanxi, the Chinese traditional relational capital, as effective in partnering, negotiation and problem-solving in the overall export performance of New Zealand firms. Van Hoek et al., (2006), in their research, designate the term to describe the selection of Chinese distributors and agents for Finnish exporters. Finally, Mehta et al., (2006) state the importance of partnerships in China’s distribution networks for overseas-based manufacturers.

As partner selection is a ubiquitous theme in contractual/equity joint venture research, the multiple entry mode as discussed above by Benito et al., (2009) along with the research linking partner selection to China-specific literature can provide greater contextual insight into export performance. The literature in the above paragraph on partner selection, exporting and China presents multiple entry modes, and seems to suggest a link with exporting, China, partner selection and the level of commitment required in China.

3.4.3. Country of origin and promotion

Country of origin (COO) marketing is also a theme that is pertinent to this thesis due to the nature of the increased exports of Australian infant formula to China. As was shown in Chapter Two, Australia’s clean green environment has played a crucial role in the success of the country’s infant formula exporters to China. Many of the COO advantages that Australia enjoys are due to its geographical, climatic and environmental endowments. In the context of this thesis and food exporting in general, it is the perception of Australia’s clean green environment that is very popular amongst Chinese consumers. This is becoming a major selling point that is intrinsically tied to the COO of Australian products (Chang and Kristiansen, 2006). Additionally, institutional factors in Australia play a significant role in maintaining the overall quality production standards. Australia’s food regulations are ranked higher than China’s (Charlebois et al., 2014) with the perceptions of Chinese consumers of Australia being a source for clean, safe food being well founded. Nevertheless, the COO aspect is an industry-wide advantage and shared amongst all domestic actors, providing the opportunity for some exporters a free ride (Mahon, 2002).

Generally, COO is a factor that indicates quality associated with a home country. Verlegh and Steenkamp (1999) describe the COO feature in product marketing as a cognitive cue, signalling that the product has quality, and portraying both symbolic and emotional meaning to customers. Typical examples include German-made automobiles, Italian-made fashion or French-produced wine. Corporate brands with reputations for quality that are complemented with a COO brand of the same

nature have been shown to be key factors for success (Mahon, 2002, Henderson, 1998, Guercini and Ranfagni, 2013).

Contextually, research by Wang and Yang (2008a) on the link between COO and brand personality for automobile purchases in China shows that brand personality and COO have significantly positive effects on the purchasing intentions of Chinese consumers, but states that of the two, brand personality has a stronger influence. Research on Chinese consumers in Australia regarding milk purchases provides further evidence. Liem et al., (2016) on UHT milk consumption by ethnic Chinese consumers in Australia show the term 'unsafe' as being associated with Chinese milk.

While product safety fears amongst Chinese dairy consumers still persists (Dong and Li, 2015), Chinese purchases of Australian infant formula online in preference to Chinese formula are due to the need for infant formula and the perception of Australia's environmental conditions as best for producing dairy (Gong and Jackson, 2012a). While the Chinese consumers' purchase intentions is on safety when purchasing Australian dairy products (Liem et al., 2016), it is mostly centred on the COO aspect. Nevertheless, the Chinese infant formula market is relatively new to Australian exporters. In light of scant empirical evidence on COO within the research context, Balestrini and Gamble (2006) and Hu et al., (2008) show that Chinese wine consumers place great emphasis on COO. Their research showed that Australian wine ranked as the second most purchased after French wine, due to Australia's environmental credentials as much as to their wine pedigree.

Nevertheless, the Chinese market for infant formula is largely controlled by multinationals such as Mead Johnson, Dumex, Nestles or Abbotts, who are already highly favoured in China (Gong and Jackson, 2012b). These firms have successfully transferred the quality assurance aspect from the COO to their corporate brand. Furthermore, the success of these multinational infant formula brands was shown through their R&D capabilities and product image on the top of their COO. Such positioning is seen as a more sustainable source of competitive advantage over COO attributes (Wang et al., 2012b). Nonetheless, with constant lapses in food safety in China, the quality assurance aspect is one that will remain a key cue for the Chinese consumer. This is especially the case in the infant formula market.

Aside from product marketing, the COO has significant advantages regarding partner selection. Leveragability advantages in China were shown by Pucci et al., (2012) in the context of Italian fashion brands in China. The research shows that COO, along with a firm's quality reputation, has significant pull factor in finding a partner of strategic fit. This is a significant matter considering that partner selection is a matter of such importance for the internationalisation process (Johanson and Vahlne, 1992).

3.4.4. Product traceability

Within the context of this thesis and the phenomenon of increased infant formula exports to China, product traceability is a prominent theme. It is also listed on the Australian government's website as an institutional requirement for infant formula exporters to China.⁵¹ While product traceability is well researched in the supply chain management discipline, scant literature on the subject in an export performance context exists. Two articles provide a vague reference to the field. In the first, Wheeler et al., (2008) present supply chain links as a relational strategy for positive export performance. The second article by Ling-Yee and Ogunmokun (2001) suggests that linking supply chain skills with financial resources is a form of competitive advantage.

Product traceability and supply chain integration is a response to current food labelling systems that are unable to guarantee food authenticity, quality and safety (Aung and Chang, 2014). To begin, a definition of product traceability is required. Bosona and Gebresenbet (2013: 35) contend that 'food traceability is part of a logistics management system that captures, stores, and transmits adequate information about a food, feed, food-producing animal or substance at all stages in the food supply chain so that the product can be checked for safety and quality control, traced upward, and tracked downward at any time required'.

Furthermore, Bosona and Gebresenbet (2013) show three key components in a product traceability system: (1) the ability to look forward, (2) the ability for a retrospective analysis, and (3) a deeper vertical exploration along the supply chain. The supply chain which identifies the most important nodes for the dairy industry is depicted above in Figure 2.2.

Traceability systems perform three major functions, those being identification, registration and elaboration (Manikas and Manos, 2009). Nevertheless, one of the main challenges is the vast level of inputs in each area of a supply chain's traceability system. From an information perspective, Golan et al., (2004) highlight three contributing challenges within such a product traceability system. First is the breadth of information the traceability system records. Second is the depth of the system in respect to the amount of retrospective data that is collected. Third is analysing the precise movements and characteristics of a product along the supply chain. The information collected is voluminous and in theory provides three-dimensional coverage of the supply chain.

⁵¹ <http://www.agriculture.gov.au/export/controlled-goods/dairy/operating-registered-establishment/china-requirements>

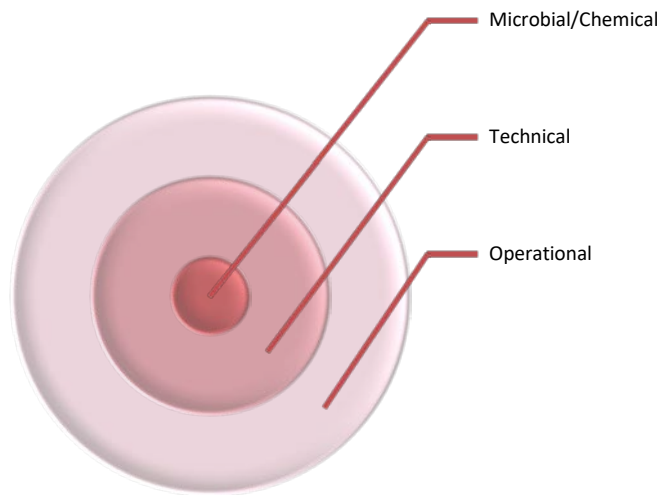


Figure 3.9. Microbial/chemical-technical-operational relationship in dairy traceability

Within a dairy context, product traceability requires three parts with regards to detection as shown in Figure 3.9 above. The first is the detection of the chemical or microbial aspects within the supply chain. The presence of micro-organisms could create hazardous pathogens in milk and may possibly represent a risk for public health by negatively alerting milk quality (Vilar et al., 2012). This is the primary determinant that influences the quality and safety of the product. The possibility of contamination can occur from the milking, storage and transportation stages (Nada et al., 2012). This facet of the traceability process is arguably the most difficult due to the minuteness or even invisibility of the problem. It is at this level that the Melamine contamination in 2008 occurred.

The technical aspect is the second component and the one that most impacts the organisation (Verdenius, 2007). An organisation's systems and technology bring together all the microbial and chemical-technical-operational aspects of the traceability structure. Technologies available to manufacturers now are alphanumerical coding, bar coding and radio-frequency identification, known as RFID (Regattieri et al., 2007). Furthermore, QR codes are now used for product traceability in China (Ma, 2016). These technologies have helped to save time and increase effectiveness and efficiencies across many areas of food safety and traceability.

The third aspect is the operational component of the product traceability system, which requires human and technological resources to work in parallel (Brofman Epelbaum and Garcia Martinez, 2014). In an operational sense, the capability to trace a product along the supply chain is difficult. Its successful implementation is brought about by the interlinking of supply chain nodes. These nodes are both internal as well as external to the focal firm, and include aspects such as logistics, distribution and retail. The challenge comes as a result of asymmetry amongst these linkages. Nevertheless, in order to have complete symmetry in the flow of traceability information, supply chain participants need a system of

standardisation through an all-encompassing model (Bosona and Gebresenbet, 2013, Valeeva et al., 2005).

Lastly, Bosona and Gebresenbet (2013: 46) provide five factors for overall effective product traceability along a supply chain: (1) legislative compliance, (2) safety and quality of food, (3) social and stakeholder satisfaction, (4) economic benefit, and (5) technological and scientific paybacks for greater efficiency and effectiveness. The reader can see that the detailed requirements for product traceability have links to the field of strategic management, especially with regards to the resources and capabilities mentioned. These factors are very similar to Figure 3.10 below (courtesy of Aung and Chang (2014)). The diagram provides an overview of the factors required to answer the who, what, when, where and why questions associated with product traceability.



Figure 3.10. Drivers of traceability in food supply chains.

Source: Aung and Chang (2014)

At the organisational level, a firm's product traceability capabilities have been shown to be a source of competitive advantage (Mykhaylenko and Schaft, 2010). Golan et al., (2004) indicated that a firm's product traceability was a source of competitive advantage in three ways: (1) the improvement of supply chain management, (2) the retrospective analysis of safety and quality, and (3) the ability to differentiate and market products with attributes of slight or invisible qualities.

The advantages of a firm with product traceability capabilities are significant and valuable. Sparling et al., (2006) reveal that a firm's product traceability capabilities become an asset for products that have special characteristics. Furthermore, such capabilities protect a firm's brand name and increase consumer confidence. These product traceability capabilities become valuable, rare, imperfectly inimitable and non-substitutable to the firm (Maldonado-Siman et al., 2013). Furthermore, a source of competitive advantage is achieved when technological advancements in a traceability system are completed (Brofman Epelbaum and Garcia Martinez, 2014). Lastly, Mykhaylenko and Schaft (2010) reveal that synchronisation in the dairy supply chain through the implementation of tighter vertical management creates a greater source of competitive advantage to the firm.

3.4.5. Summary

The aim of this section was to look at success factors for export performance. This section began with a look into the general literature on international business and discussed entry modes. It then proceeded to look at the characteristics of exporting and non-exporting firms, and followed with a review of the literature on determinants of export performance using the major meta-analyses. Using Figure 3.7, the literature that follows explains this rudimentary model of export performance to show the individual aspects that best explain how firms reach export performance. Additional factors outside the mainstream literature are also included, such as partner selection, country of origin marketing and product traceability. Although these factors are predominantly linked to the phenomenon, they were shown to have significance in the literature on export performance.

3.6. Strategic configurations and the Miles and Snow Typologies

As has been stated above by Sousa et al., (2008) and Wheeler et al., (2008), the approach that a firm undertakes to its export marketing strategy plays a crucial role in its export market success. The addition of the Miles and Snow Typologies aids this thesis by providing greater clarity of each organisational case study. This clarity is due mainly to each case study having a differing strategic approach to its overall business venture. This is also referred to as 'equifinality' and is discussed in the RBT section above. Equifinality can be seen in the value chain of the dairy industry in Figure 2.3 above, with the depiction of B2B and B2C models.

The different business models that firms employ will produce variations in the importance of the background and intervening factors, as shown in Figure 3.7 above. It's the firm's business model and its competitive environment that dictates how its resources and capabilities are selected and deployed

to produce the best outcome for the firm. This was mainly discussed in the export marketing strategy of the firm. The use of the Miles and Snow Typologies in this thesis is in line with research by Shoham et al., (2002), who were the first to combine it within the context of assessing the export performance of a firm.

In consideration of the above, Miles et al., (1978) have provided the field of strategic management with a framework that addresses three sets of problems that organisations face: entrepreneurial, engineering and administrative complications. These are the same problems that firms in international business also face. In addressing each problem, the theorists created four general classifications (also referred to as typologies) under which organisations fall. The first three are the Defender, Prospector and Analyser typologies. These three are considered as viable strategies. The fourth is the Reactor typology and is considered an unviable strategy due to the lack of strategic direction (Blackmore and Nesbitt, 2013). In addressing the above problems, the framework incorporates strategic orientations, structures, processes and human resource management to assess a firm (Luo and Park, 2001). Overall, these strategies, structures and processes are determined by an organisation's senior management in a cycle that organisations must adapt to in light of addressing the problems in the environment.

Before addressing the four strategic typologies, we refer to Miles et al., (1978) to explain further the adaptive cycles and the entrepreneurial, engineering and administrative problems. The mechanism for change in the firm's processes is referred to as its adaptive cycle, which it must address in order to exploit environmental opportunities. In light of these environmental opportunities, the three problems of the firm must be sequentially assessed. The entrepreneurial problem first addresses the initial commercial impetus of the firm. During this aspect, an organisation must define its territory, its targeted market and its segment. For example, Slater and Narver (1993) explain that once a product-market strategy has been decided upon (entrepreneurial problem), systems are required to produce and distribute (engineering problem) which are supported by the organisation's structures and processes (administrative process). In established firms, this entrepreneurial problem poses a hindrance to the adaptive cycle. New ventures in established firms create difficulties as engineering and administrative resources and capabilities are aligned to the previous entrepreneurial venture.

The engineering problem, Miles et al., (1978) state, is the task of creating a solution to management's entrepreneurial problem. Operationalisation through technology is the key engineering problem for getting products and services made and distributed. Furthermore, creating and or modifying linkages for information, communication and control ensures that technology is optimally utilised. Lastly, Miles et al., (1978) discuss the administrative problem which seeks to reduce uncertainty through organisational systems. The key objective of the administrative problem is to streamline and stabilise those activities that successfully solve the entrepreneurial and engineering problems. A perfect organisation would create structures and processes that could foster both the smooth operations of the

firm's current strategy as well as future changes. This would require flexibility to adapt by creating leading and lagging capabilities. In addition to the descriptions of the adaptive cycles and the three problems, below are brief generic descriptions of the four strategic typologies. Each has heterogeneous strategies and contrasts the adaptive cycle and the entrepreneurial, engineering and administrative problems.

A Defender is an organisation in which top management acts to maintain stability in the environment by creating and maintaining a small niche in the market, as its solution to the entrepreneurial problem. This type of firm has an internal focus and is well resourced in the engineering problem, with production and distribution efficiency the key through a single core technology. To maintain such positioning, the administrative function of the firm has top management implement strict controls through organisational structures and processes. The overall emphasis of a Defender is on production and cost control (Miles et al., 1978, Conant et al., 1990, McDaniel and Kolari, 1987).

A Prospector is considered the opposite to a Defender. A Prospector's prime capability is exploiting new products and market opportunities. Maintaining a reputation of innovation in product and market opportunities is just as valuable as profitability through change reactions in the market. Technology is designed to fit according to the dynamic mix of present and future opportunities. Administratively, Prospectors have an organisational structure that is planned organically to take in the broadness of their domain with a focus on flexibility (Miles et al., 1978, Conant et al., 1990, McDaniel and Kolari, 1987).

An Analyser is a mix between a Prospector and Defender, and looks to mitigate risk and maximise opportunities. The Analyser is the most difficult of all typologies to pursue due to the balance this typology must maintain between dynamic markets and adapting technologies. The firm orientates itself towards market-seeking opportunities whilst maintaining its core products and customers. Nevertheless, the market-seeking aspect is as a fast follower once products are viable in the market. The engineering problem here is therefore balancing the need for stability and flexibility. The administrative aspect also requires the same stable and flexible capabilities, much like the merger of a Prospector's and Defender's administrative functions. Managers responsible for product-market innovation dictate to engineering and production through a coalition. This is achieved through the firm's functional level strategy (Miles et al., 1978, Conant et al., 1990, McDaniel and Kolari, 1987).

A Reactor is the final typology and is primarily different to the other three in one key element. While the above are all proactively orientated, the Reactor (as its name suggests) is reactive. Its reactions to environmental changes are inconsistent and unstable. Due to its inability to gauge environmental changes effectively, Reactors are in perpetual instability, and entrepreneurial, engineering and administrative aspects do not produce a successful outcome for the organisation. In the end, the Reactor typology is formed when a Defender, Prospector or Analyser does not properly enact its strategic orientation (Miles et al., 1978, Conant et al., 1990, McDaniel and Kolari, 1987).

From an export performance perspective, Shoham et al., (2002) were able to apply the Miles and Snow Typologies to analyse the strategies and competencies of dissimilar organisations. Its application to this thesis can be seen in two ways. The first is the link Shoham et al., (2002) make between the Miles and Snow framework to assess the export performance of firms. The second is the fact that the research participants were all from a manufacturing background. These manufacturers also included food processors from Australia, thereby increasing its relevance to this thesis.

While the above description provides the foundation for the typologies, the Miles and Snow framework has produced variations when adapted to different studies and contexts. Naidu and Prasad (1994) applied the framework to test the export behaviour of SMEs from fourteen countries/regions, including Australia. The findings showed Prospectors (56%) as the highest exporters, although Defenders (44%) and Analyser (40%) were also high compared to Reactors (26%). Shoham et al., (2002) analysed the export performance of manufacturing firms from Australia using the Miles and Snow Typologies. These findings showed differences in strengths for all typologies except in the management of marketing.

Blackmore and Nesbitt (2013) researching Australian SME's through the Miles and Snow Typologies identified a new typology, naming it Static. The Static typology uncovered by the researchers constituted 42% of the sample and showed a business model that lacked strategic direction however was viable. This is significant considering Miles et al., (1978) posit a firm's lack of strategic direction makes it unviable for success such as the Reactor typology. Overall, the importance of this research dispels the dynamic nature of business strategy and the ability of the literature in the Miles and Snow Typologies to expand.

Luo and Park (2001) applied the typologies to the Chinese market-seeking multinational corporations. The findings showed the Analyser typology as being the most successful, mainly due to the Defender and Prospector typologies being unable to fully exploit the dynamism and turbulence of the Chinese market. Troilo et al., (2014) investigated slack resources and innovation in hi-tech Chinese firms. The results showed that the Analyser in China required the greatest amount of slack resources for their innovative capabilities.

The examples above provide reference to the usefulness of the Miles and Snow Typologies in the context of this thesis, and show the flexibility around assessing a firm's strategic capability configurations. While the research question of this thesis seeks to explore and explain the key success factors for exporting Australian infant formula products to China, the case studies are all heterogeneous. Using the Miles and Snow Typologies for the four case studies in this thesis provides the reader with a background into the successful strategic configurations of each case.

3.7. Chapter summary

Chapter Three introduced the literature around the theories and factors that aided the explanation of the export performance of Australian infant formula exporters to China. Comprising of three sections, the first detailed the paired theories of the UM and RBT. Their pairing provided the best tools for understanding the phenomenon and answering the research question. The UM is selected from other theories of internationalisation due to its focus on the firm as a market seeker, and provides the model for how inexperienced exporters successfully internationalise. RBT provides the theoretical lens into identifying factors for success. This lens classifies a firm's resources and capabilities as those that are VRIN to the firm.

The second section identified the determinants of export performance. It began with an overview of entry modes and the true reality that international firms must deal with the complexity of multiple entry choices. The literature on the determinants of export performance was broken down to discuss the background, intervening and outcome variables required to explain export performance. While the literature is extensive, it does not fully explain the factors for answering the research question. Additional literature outside the mainstream included partner selection, country of origin promotion and product traceability. These factors, though limited in providing sufficient explanation into export performance, are identified and detailed. Overall, this section shows that although the field of export performance is well researched, limits are still present in explaining new avenues of research in export performance.

The third section introduces and explains the Miles and Snow framework for assessing the strategic configuration of a firm's capabilities. The use of this framework allows researchers of export performance greater understanding of the resources and capabilities of heterogeneous firms within an industry. Additionally, the framework reduces the equifinality criticisms of RBT, and provides greater insight in export performance factors for a pool of organisations with heterogeneous business models.

4. Chapter 4: A multi-layered qualitative research design

4.1. Introduction

The aim of this chapter is to outline the research approach undertaken for this thesis. In answering the research question, a qualitative multilayered inductive research approach consisting of case studies and interviews was the most appropriate method. This was mainly due to past literature in the field having limits in answering the research question. Furthermore, the investigated phenomenon was highly dynamic during the course of the thesis, making the chosen methodological approach most apt at capturing new themes and concepts. The multi-level approach consisted of interviews from government bodies and industry participants along with four organisational case studies. These provided a macro-meso-micro level insight into the phenomenon. Such an approach provided unique insight into the success factors for exporting Australian infant formula to China.

The outline of this chapter begins with the research design. Introduction of the antecedent factors sets the stage for the overall research plan, beginning with a problem-based approach. Second, the inductive case study research approach is discussed as the method most appropriate for answering the research question. Third is the outlining of the sampling, sample size consideration and selection criterion. Fourth is the method applied for data collection. Fifth is the data analysis approach employed to analyse the multiple case studies and interviews. In addition, the factors for maintaining rigour and validity are also outlined. The sixth and seventh part explains the ethical considerations and limitations/delimitations of the research. Overall, this chapter aimed to provide a true account of the research methodology employed throughout the thesis.

4.2. Research methodology

4.2.1. Problem-based research

This thesis originally arose out of the researcher's interest in international business. The search for an area of investigation led to the development of a research question from a real-world event. This is different to gap-spotting. Gap-spotting is popular for creating and challenging incomplete, inadequate or inconclusive research while drawing underdeveloped suppositions from past literature (Alvesson and Sandberg, 2011). The phenomenon of increased infant formula exports to China and the lack of past literature in the field provided the basis for this thesis. As Ellis and Levy (2008) explain, research problems exist when two factors occur. The first is when the current situation differs from the ideal. The second is when there is either no solution or mixed and/or contradictory solutions in the literature. The research question, aided by an appropriate research design, enhances one's approach to a real-world event (Eisenhardt and Graebner, 2007). As research is about piecing together information or meaning, the use of scientific analysis helps to understand the phenomenon investigated (Pauwels and Matthyssens, 2004a).

In an attempt to answer the research question, this thesis deliberately challenges past assumptions in the literature by applying a method of deliberate, systematic and ambitious problematisation (Alvesson and Sandberg, 2011). Although this thesis seeks to understand the key success factors at the organisational level for exporting Australian infant formula to China, literature addressing the topic, context and unit of analysis has provided little explanation (Sousa et al., 2008). It is on the basis of meeting the two factors by Ellis and Levy (2008) above for a research problem that the methodological approach was selected.

4.2.2. Unit of analysis

The unit of analysis for this thesis is the export venture, namely Australia exports to China. As Sousa et al., (2008) point out, the single product / country unit of analysis is more difficult and less preferred by researchers, who favour analysis of the firm as a whole. The difficulty is due to the fact that most organisations export to multiple markets, and as such, investigating the resources and capabilities at the venture level becomes challenging due to the internal determinants of the firm overlapping for all its export markets. Because a firm-level analysis has to take into account a firm's competing markets, products and strategies (Sousa et al., 2008: 350-351) a venture-level analysis is preferable. Sousa et al., (2008) state that with controls, the export venture analysis is much more advantageous. The control in this thesis is the use of organisations, industry bodies and government bodies. This provides a macro-meso-micro-level approach. This concentrated focus can provide substantial evidence into key success factors. As the research seeks to investigate key success factors, Sousa et al., (2008) provide support for the chosen unit of analysis and its advantages to the research from both a product and context perspective.

4.2.3. Context

Welch et al., (2010) describe context as the connection of linking dependent settings, from which an outcome is produced whereby a phenomenon is its by-product. In an International Business (IB) context, this is extremely important. Nonetheless, case study research in IB has undervalued context and treated it as something trivial (Poulis et al., 2013, Welch et al., 2010). Nevertheless, context and its sensitivity is important, as Whetten (1989) states, due to an appreciation of where and when it is happening. With China as the main contextual factor in this research, it is valuable to compare the differences, which can be seen from a social and political/regulatory context. Furthermore, contexts within management theories that are of Western origin play a significant role due to compatibility (Welch et al., 2010).

Because this research investigates the performance of Australian infant formula exporters to China, context plays a significant role in the forming, shaping, analysis and interpretation of the data. China provides this unique setting, with its combination of a central planning government and free markets economy. Moreover, the field of theory development in relation to business interactions with and within China is still formative. The cost of theory development is due to stark differences in cultural,

institutional and managerial practices (Li and Peng, 2008). One such example is provided by Eranova and Prashantham (2016), who research the paradox in Chinese decision-making. Their findings show just how different Chinese decision-making is compared to the Western approaches indicated in prevalent Western-based research. This is a factor that the researcher has taken into account.

4.3. Research method used

With a problematisation approach as described above, answering the research question is best handled through a qualitative method. The qualitative method allows for exploring and explaining a phenomenon through rich and thick descriptions, and uncovers the understanding, motives and after-effects of a real-world phenomenon more effectively than a quantitative method would (Denzin and Lincoln, 2000, Doz, 2011, Yin, 2010, Birkinshaw et al., 2011). With Chapter Two above detailing the industry's dynamic nature, the qualitative approach cuts through ambiguity. This was original through a single tier deductive case study approach, which only focused on market participants. As Corley (2012) states, 'in qualitative research one tries to see the forest through the trees'. With a narrow scope of investigating internal factors for success, the qualitative approach requires two key aspects, considered by Gioia et al., (2013) to be the foundation for good qualitative research. The first is a well-specified research question and the second is multiple data sources centred on the semi-structured interview.

As stated above, the problematisation approach was born out of the inability to explain a particular phenomenon due to the explanatory weaknesses in past literature. In light of new themes and concepts, an inductive approach was therefore undertaken for this thesis. As present knowledge is an interpretation of previous literature, a focus on past works can prove somewhat limiting in advancing the understanding of trends in IB research (Gioia et al., 2013, Welch et al., 2010). Furthermore, IB case researchers must, as Poulis et al., (2013) state, not just repeat existing practices but use the interplay between theory and evidence. This interplay informs researchers of methodological choices over the course of the research, as this thesis has done. In light of contributing new knowledge to the field, the opportunity costs in new thinking must be considered. As Wang et al., (2012a) states, not changing a research approach is a significant impost on one's research. By doing so, novel approaches can be employed to test old variables and their relationships. Also the discovery of totally unknown concepts can increase from such changes in research approaches.

In light of the advice from Wang et al., (2012a), the research design was changed to take advantage of new knowledge gained. The original research design began with a qualitative deductive method having hypotheses in the form of a conceptual framework, similar to the Yin (2009) model. Nevertheless, with novel themes and concepts starting to be uncovered, an inductive approach was employed, making the new method better at exploring the phenomenon in question (Baxter and Jack, 2008). Furthermore, the inductive method chosen was suitable for its ability to cope with complexity and dynamism of the

phenomenon as it shifted over time. This allowed for the study of factors that were difficult to measure (Eisenhardt et al., 2016). Furthermore, the ability to switch research approaches was most apt, especially for emerging markets research such as China (Eisenhardt et al., 2016).

While traditional multiple case study practice requires a structured approach, this thesis followed the recommendation of Gioia et al., (2013) of trailing the interviewees for new concepts and themes. The opportunity cost to the field of research by not doing so was great. Just as Gioia et al., (2013) suggest, this thesis followed the interviewees' insights with regard to our overall research question being answered as a must. Therefore, the ability to adjust the practices in this thesis on the spur of the moment was vital. While the research question had guided the choice of methods and selection of case studies (Birkinshaw et al., 2011), the inconsistencies within the literature meant that switching to an inductive approach was warranted.

As Eisenhardt et al., (2016) clearly states, inductive research has many false starts and is a messy discovery process. Furthermore it is episodic, and follows a non-linear path, very much as this thesis has. Hence the requisite research approach was a flexible method for understanding the phenomenon in question. A flexible technique was chosen that would satisfy the existing requirements of multiple case study research for rigour and trustworthiness. At the same time, the research design was malleable with the data collection in order to capture new themes and concepts. Outside the fixed requirements for validity and rigour, no prescription was required for answering the research question. Instead, the researcher had the freedom to use techniques that were best suited (Eisenhardt et al., 2016).

This inductive approach, as Eisenhardt et al., (2016) states, has three basic tenets for which this thesis followed. First, a long engagement with the phenomenon and openness to different types of data. Second, a theoretical sampling to illuminate the phenomenon for either (1) extending and developing relationships among the constructs or (2) gaining a deeper understanding of processes. Such an insight is gained when researchers adjust their direction quickly when new insights and or emergent opportunities arise. Third, this thesis uses grounded theory's general rules with regards to data gathering, memo-ing and adjustment of data collection in real time for emerging understandings and opportunities, as mentioned above. Moreover, it uses the method of a data structure as discussed by Gioia et al., (2013). The data structure has first-order concepts, second-order themes and aggregate dimensions with constant comparison between data, theory and the literature.

4.3.1. Case study approach

The phenomenon being researched is a contemporary issue worthy of explanation.⁵² This thesis looks to interpret the actions that successful exporters have undertaken through multiple case studies and

⁵²Reasons for worthiness are outlined in Chapter Two. These include a series of major industry-based disruptions to the domestic and Chinese markets over the past five years: significant impacts on industry players, with some

interviews. The multi-layered approach arose from the quest to understand intricate social phenomenon, as it allowed an in-depth and all-encompassing view of a real-life event (Yin, 1994, Yin, 2009). As Yin (2003) explains, the case study method is used if there is a deliberate attempt to uncover contextual conditions that are highly pertinent to the phenomenon under investigation. Furthermore, the case study approach is better for carrying out research within an organisation than on an organisation (Dubois and Gibbert, 2010). The case approach assisted in deconstructing and reconstructing the phenomenon (Baxter and Jack, 2008) and was therefore most apt in understanding the key internal success factors for Australian infant formula exporters to China.

There were five advantages for using case studies in this thesis. Firstly, case study research helps to answer 'what', 'how' and 'why' research questions. Secondly, it removes the ability for the behaviour of the participants to be manipulated. Third is the necessity of uncovering relevant contextual conditions. Fourth is the removal of opaque boundaries between the phenomenon and the context that existed. Fifth, it is particularly relevant for research where the phenomenon is contemporary (Baxter and Jack, 2008, Dubois and Gibbert, 2010, Gibbert and Ruigrok, 2010). The multiple case study method, as Pauwels and Matthyssens (2004b) state, is relevant when trying to capture the subjectivity in the phenomenon by understanding and explaining it. This thesis sought to do so.

Case studies have been widely used in the study of IB for research into both process and factors. They are used as a popular qualitative research method within this research field and have the potential to pioneer new theory (Welch et al., 2010). Specific to this research area, case studies have provided the field of management with some of the most ground-breaking insights (Gibbert and Ruigrok, 2010). One such is the UM as highlighted above. Johanson and Wiedersheim-Paul (1975) used four case studies to investigate a firm's internationalisation pattern.

At the factor level, export performance case studies allow for greater analysis into decision-making processes and causality when dealing with events over a period of time (Chetty, 1996). In addition, case studies with in-depth interviews have ensured that measures chosen are applicable in an export performance context (Souchon and Diamantopoulos, 1996). Moreover, the chosen mode of qualitative analysis applied to the present research has afforded the ability to redraw generalisations and study patterns common to cases as well as to build theories (Chetty, 1996). Lastly, the multiple-case approach prevented reliance on a single source (Yin, 2009), as can happen with a single case study. As this study was interested in investigating a phenomenon, no one case was more important than any other, and the synthesis of all cases aided in providing the key success factors.

firms exiting the industry and other firms facing significant losses; managerial restructures and financial turnarounds.

4.4. Sampling, sample size consideration and case selection criteria

This thesis applies a purposive sampling technique for the identification of case studies and interviews within this thesis. The types of sampling techniques do not follow one particular strategy but a combination of theory-based, maximum variations, opportunistic, criterion and mixed sampling (Miles and Huberman, 1994). This combination is due to the multi-layered research of combining market and non-market actors in the sample. Furthermore, parameters have been set so that relevant cases to understanding the phenomenon are selected. With the unit of analysis and the context, in conjunction with the sampling techniques above, these parameters provide the relevant boundary for selecting the right participants.

4.4.1. Sample size considerations

The population size for this thesis is very narrow due to the unit of analysis, and the sampling frame consisted of three criteria. The first was that the firms selected had to be indigenous to Australia. The rationale for this decision was that multinational enterprises with subsidiaries operating domestically would have access and leveragability to the resource and capability pool of their parent companies. Data from such entities had the ability to skew the results in comparison to indigenous firms with lesser resources and capabilities. This could provide key success factors that would be untenable to Australian firms, especially SMEs. The second criterion was that these firms had to be successful exporters. As the phenomenon began after 2008 and attracted attention after 2013, exporters with more than two years' experience were considered to be successful. In addition, firms on the CNCA list in Figure 2.9 above were considered successful, due to their ability to meet the strict entry requirements. The third consideration was the selection of cases that showed maximum variation along the supply chain. Such diversity allows for the identification of common patterns (Miles and Huberman, 1994).

With discussion on the frequency of cases, Pauwels and Matthyssens (2004a) state that the number of cases is not a quality criterion. Nevertheless, Eisenhardt (1989), who is an authoritative figure within this domain, states that population is crucial. The number of cases defines the set of entities from which the research samples are drawn. Eisenhardt et al (2016), indicate that between four and ten cases is the ideal number. Additionally, as this thesis is a multi-layered research approach, the size considerations for the macro and meso interviews were also considered. Nonetheless literature providing guidance on size for the macro and meso interviews was scant.

4.4.1.1. Pilot interviews

The pilot interviews provided insight into all aspects of the phenomenon. These interviews helped identify population boundaries and assisted in the selection of cases from the identified population (Poulis et al., 2013). Additionally, the pilot interviews assisted in the broad preparation of the framework and methodological issues (Remenyi et al., 1998). Pilot interviews were conducted with an industry association executive and a senior manager once ethics approval was granted. With the subjective nature of what is successful, the pilot interviewees provided further insight into the sampling

criterion. This was demonstrated when one pilot interviewee recommended a case study that increased the variation of firms studied. This case study had a unique strategy that meant CNCA approval was not needed. Furthermore, another pilot interviewee provided introductions to two of the organisations in the sample. This was important due to the difficulty in obtaining organisations to participate at the start. As Yin (2014) states, screening for cases in a one-phase approach requires the assistance of knowledgeable people. These introductions aided the research immensely, as they allowed the researcher access to interviewees from one of the major organisations in the industry.

4.4.2. Selection of interviews and cases

This thesis applied a one-phase multi-layered approach. Yin (2014) states that a one-phase approach is ideal when the population size is around a dozen. Cuervo-Cazurra et al., (2016) advocated such a multi-layered approach so as to increase the trustworthiness of IB research. With the sample considerations discussed above for a multi-layered study, this thesis selected cases and interviews that met these criteria. With the pilot interviews and secondary data analysis⁵³ an initial start list of three successful organisations were selected (Poulis et al., 2013) however this expanded. Overall, the mixed sampling approach provided three levels of subjects to be included in this thesis: (1) interviews with an Australian Government department responsible for facilitating export trade, (2) two interviews and a focus group from three industry associations, and (3) four case studies at the organisational level. These three layers provided the macro-meso-micro insights required to answer the research question and controls suggested by Sousa et al., (2008).

While triangulation may include multiple methods of data collection and analysis, Golafshani (2003: 604) suggested that such methods are not fixed for all the researches. The methods chosen in triangulation to test the validity and reliability of a study depended on the criterion of the research. With the venture/product unit of analysis dictating this thesis, such a multi-layered analysis provided the opportunity to counteract the challenges to research at the venture level (Sousa et al., 2008).

Hence the four organisational case studies, two interviews and a focus group from industry associations and three interviews from government made up the bulk of the data. Figure 4.1 below shows the diversity of each and their exposure to the export supply chain. Furthermore, at the organisational level, differences in size were also sought so as to provide further variation. Overall, the sample had three organisations classified as large and one classified as a SME. A brief description of the interview and case studies from the macro-meso-micro levels is provided next.

⁵³ The first sample investigation was conducted through the Dairy Australia website, where a search of companies in the 'who does what' section [<http://www.dairyaustralia.com.au/Industry-information/Who-Makes-What.aspx>] provided an extensive list of dairy members. At the time this thesis commenced, the new regulations issued by the Chinese authorities for infant formula packagers required an audit and accreditation by the CNCA. Firms that passed were granted import licenses and their details were published online. This provided the basis for the sample selection, as those who had passed were more successful than their rivals.

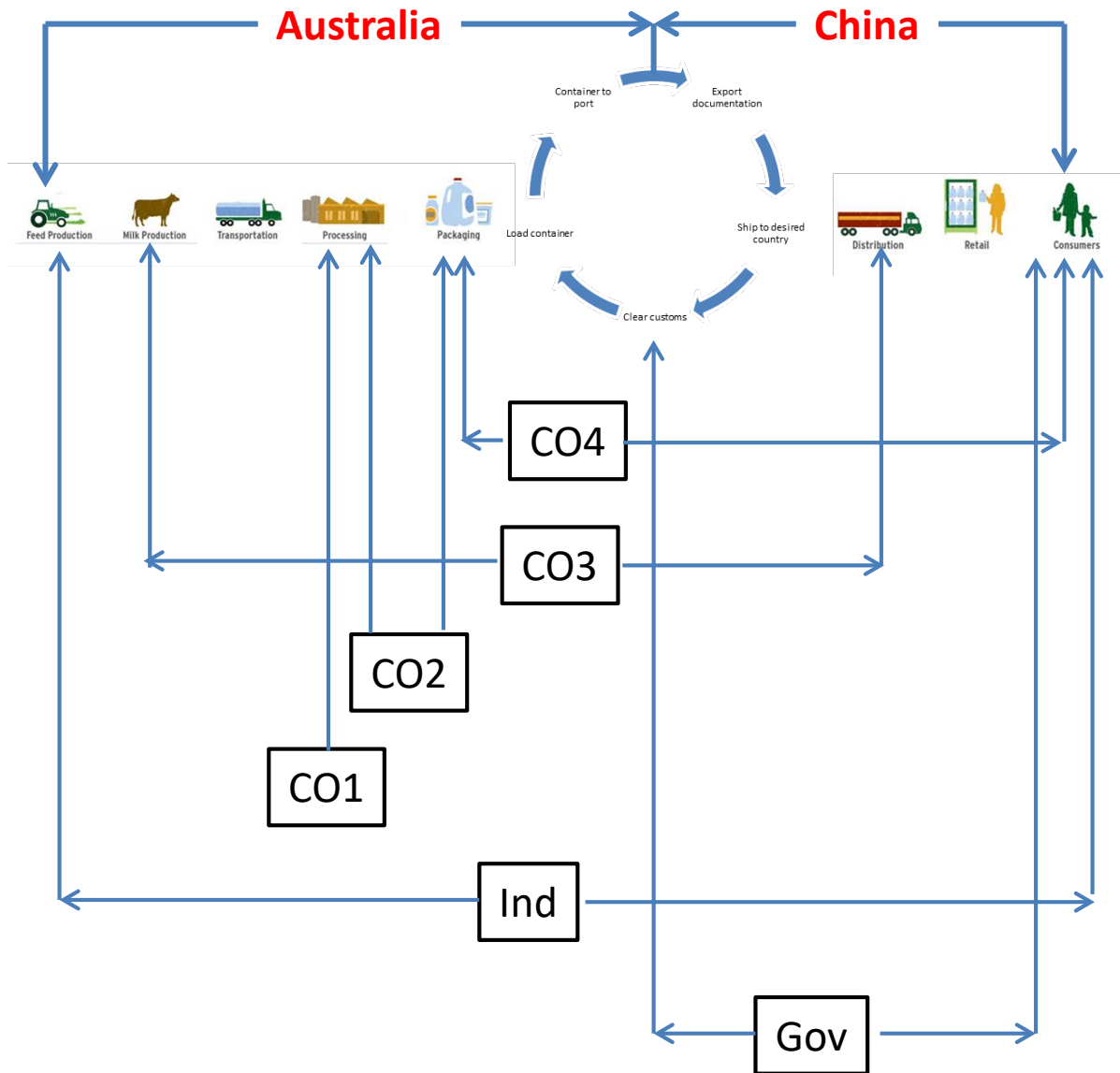


Figure 4.1. Government, industry and each case study and their exposure to the Australian and Chinese infant formula export supply chain

4.4.2.1. Government body interviews

At the macro level, a government body responsible for promoting the export trade of Australian companies abroad was chosen. Through an internet search, three individuals were selected, with two based in China who were senior executives and one in Victoria, Australia. All three interviewees had intimate knowledge of the infant formula export trade from Australia to China and provided valuable insight into the research. The last interviewee from Victoria was also an ethnic Chinese. In a manner similar to that of CO4, these interviews brought considerable insight into the phenomenon from a

Chinese perspective. Much like the industry bodies, these interviewees also provided a more market orientated look into the phenomenon.

4.4.2.2. Industry association interviews

At the meso level, three industry associations participated in the research. The first was focused on dairy manufacturers, the second was solely focused on infant formula, and the third was the peak body that represented the whole supply chain in the dairy industry. Single interviews were undertaken with the manufacturing and nutritional associations, all of who were executives. Nevertheless a focus group consisting of three people was conducted with the peak dairy industry body. The participants there were senior managers of international marketing and regulatory affairs. These participants provided a new angle on the phenomenon from an industry perspective. As a multi-layered research study, the addition of industry associations provided a midpoint analysis into the phenomenon.

4.4.2.3. Case Organisation One

At the micro level, Case Study One (CO1) is a large, privately owned dairy-processing firm located in rural Victoria. Its operations are large and concentrated in the processing of dairy products only. This case study had three interviewees, all senior management personnel who were responsible for the international export markets. All had extensive experience within the Chinese market, and during the research, the firm made significant strategic moves towards increasing its commitment in this regard. CO1 was the only firm that was not required to have a CNCA accreditation, because as an ingredient producer it is exempt from having the necessary approval for exporting into China. This firm was identified during the pilot interview stage as being successful in China, hence its selection.

4.4.2.4. Case Organisation Two

At the micro level, Case Study Two (CO2) is a large, public-listed dairy company and is part OEM. It gained CNCA accreditation in the second round of approvals, granting the firm the ability to export infant formula to China for its clients. Three interviewees were conducted, two with the OEM subsidiary that deals in and exports mainly milk powder and infant formula. Further interviews were not conducted, as the two interviewees were responsible for China only. Nevertheless, a third interview was conducted with an export manager within another strategic business unit, which exported branded dairy products into China. This third interview provided both further insight and within-case triangulation to the findings from the previous two interviewees.

4.4.2.5. Case Organisation Three

At the micro level, Case Study Three (CO3) is a large dairy company with a dual corporate arrangement as a cooperative structure and public-listed entity. It was one of the first firms in Australia to be granted CNCA approval. One interview with a senior manager was conducted in 2014, but subsequent requests for further participants were all declined. Approaches were made to the original interviewee, the chairman, CEO, communications manager and executive general manager through direct and indirect

channels. A novel approach to provide closure to the case study was to interview three stock market analysts for their insights into the firm's export performance in China. Pauwels and Matthyssens (2004a) state that this is a form of within-case triangulation where primary data through neutral experts is applied. It further adds to the mixed sampling technique required. The legitimacy of the analysts was significant. These analysts had researched the agribusiness sector and hence had in-depth knowledge on the industry and its participants. Furthermore, all had significant years of experience (10+), with the true nature of their work being performance based. Simply put, their careers depended on them providing detailed and accurate advice on buy/sell recommendations.⁵⁴

4.4.2.6. Case Organisation Four

At the micro level, Case Study Four (CO4) is a SME located in the outskirts of Melbourne Victoria and is an exporter of dairy powder and nutritional formula to China only. Two interviews with the managing director were conducted in this case study. Three interesting facts about CO4 exist, making its contribution significant to the research. First, the firm received CNCA accreditation in the first round of audits, ahead of many notable organisations of greater size and reputation. Second, it was run by a diasporic Chinese who had extensive experience in exporting a large range of agricultural products to China for over twenty years. Third, its most senior managers were also diasporic Chinese. While only the managing director was interviewed, previous attempts to interview other company officers were unsuccessful. On one occasion an interview was organised with the export manager. Nevertheless, after entering the room, he quickly left and called in the managing director to conduct the interview. This cultural issue was not expected. Nonetheless, the two interviews provided enough information from the participant. Furthermore, the interviewee's insight into the Chinese market provided a dyadic look at the host country's success factors. Lastly, CO4 had great exposure to the supply chain within China, more so than any other case study in this research, as seen in Figure 4.1.

4.4.2.7. Additional interviews

Two case organisations that were originally selected were unable to be completed. The first was a micro firm that specialised in marketing a single commodity, ultra-high treated (UHT) milk into China. As there were only two people in the firm and as the portfolio did not cover infant formula, very little was to be gained. Nevertheless, the single interview did provide confirmatory insight from a marketing perspective. A face-to-face interview was conducted at the researcher's university, which was recorded, lasting over an hour.

⁵⁴ The researcher has significant background in the equities financial markets and a great deal of familiarity with the functions of these analysts and their positive contribution. The criterion for selection was first their organisation. This provided assurance of their authority to be analysts. Second was their research output, both in the form of research advice and editorial pieces in the local financial press. This provided an indication of their level of individual authority as reputable analysts.

The second selected case study that was not completed was due to the firm being placed in administration. This firm was discovered during an interview with one of the organisational case studies. Its reference was made in passing as an organisation with troubles in China. Opportunistically, its selection was due to its failings in China and the logic of juxtaposing its findings with the other case studies. The data from the single interview was very rich, descriptive and candid in relation to the interviewee's experience of exporting infant formula to China. This incomplete case study provided one of the early signs of the dynamic and convoluted aspects of the phenomenon. The interview was conducted at the interviewee's premises and was recorded, lasting for one-and-a-quarter hours.

Also, an interview was conducted with an analyst in China specialising in food law, regulations and trade policy. The interviewee was the chief editor of an online publication and provided regular online updates of changes in China's food safety laws through the social media site LinkedIn. The popularity of these posts was noted when investigations into the interviewee's subscriber base revealed over half of the interview participants in this research as subscribers. The initial contact was made through an email, followed by a recorded telephone interview. Like the suggestion by Pauwels and Matthyssens (2004a), this analyst is a neutral expert. This interviewee provided to the multi-layered approach of this thesis and contribution to answering the research question.

4.5. Data Collection

This thesis uses the main data collection sources from interviews, company reports, industry reports, the financial press, blogs, government websites and default site observations. Interviews for the organisational case studies were conducted face-to-face at each organisation's location when possible. This allowed for site inspection in addition to the interviews. When face-to-face interviews were unavailable, telephone interviews were conducted. Table 4.1 below provides the details for each interview. The background of the research was provided prior to the interviews through a summary document and ethical consent form. Rapport was quickly established with most participants, so questioning got underway quickly. The interview style was one of open-ended questions that related to the overall research question (Creswell, 2002, Yin, 2003). Supplementary questions for elucidating further responses on concepts or themes deemed to be important were undertaken throughout the interviews. Given the nature of the study and the scarcity of literature, the interview protocol had to be flexible. This was in line with Gioia et al., (2013) who suggested such a flexible approach to data collection to accommodate new research findings. Hence the style was fluid and open-ended, with ability to adjust and be flexible when new themes or concepts arose.

In addition to the interview-based data collected, the dynamic nature of the phenomenon and its effects on the industry were well represented in the press within Australia and across the globe. As such, a plethora of sources from print, websites and television were in abundance during the latter stages of the research. In addition, the publicly listed companies, government bodies (both Australian and Chinese)

and industry associations all produced rich information in either electronic or print form. With the researcher's deep immersion into the phenomenon, notes and observations from many seminars and other industry-related events attended by the researcher were also taken as a secondary source of data.

A snowballing method was used to gain further intra-interviews for each organisational case study and the government entity. All the initial interviewees for the organisations were with senior executives. From there, the interviewees recommended their subordinates, which was helpful in gaining further interviews. Nevertheless, the difficulty that remained was that no case was completed in one sitting.⁵⁵ While the difficulty of interviews is discussed above, it again displays the messy, non-linear approach that inductive research can be (Eisenhardt et al., 2016). All the organisational case studies required repeated and respectful reminders. The researcher was conscious of completing the data collection in a reasonable length of time whilst not being too demanding. The strategy of polite persistence was employed to finally complete the interviews. Table 4.1 below is a breakdown of all the major aspects to each interview and case.

Case Studies	Business model	Ownership structure	Firm size ⁵⁶	No. of interviews	Interview with	Interview type
Government				3	Country head (China), regional head (China) and state advisor (Vic)	Face-to-face and telephone
Industry				2 + one focus group	Executive director/CEO/ commercial managers	Face-to-face and telephone
Org 1	OEM processor	Private	large	3	Commercial managers	Face-to-face
Org 2	OEM processor and packager	Public-listed	large	3	Commercial managers	Face-to-face

⁵⁵ This is discussed in the limitations section of this chapter.

⁵⁶ These are defined in accordance with the Australian Bureau of Statistics' definition of each <http://www.abs.gov.au/ausstats/abs@.nsf/mf/1321.0>.

Org 3	Fully integrated dairy manufacturer and marketer	Cooperative/public-listed	large	4	General manager (in addition to three investment company analysts)	Face-to-face and telephone
Org 4	Packager and marketer	Private	SME	2	Managing director	Face-to-face
Industry				2 + one focus group	Executive director/CEO/ commercial managers	Face-to-face and telephone
Government				3	Country head (China), regional head (China) and state advisor (Vic)	Face-to-face and telephone
Outliers	Marketer (1) and; packager and marketer (2)	Private	SME	2	Managing director (1); Operations manager (2)	Face-to-face

Table 4.1. Macro, meso and micro interviewee details

4.6. Data analysis

This study follows two approaches for data analysis. The basic framework for the data analysis method is taken from Miles and Huberman (1994). This technique has three parts. The first is the early analysis stage (which consists of writing up reflections of the case), the second is a within-case analysis, and the third a cross-case analysis. With regard to the interrogation of the interview data, Gioia et al., (2013) provided the guidance. The recommendation of these qualitative scholars is a focus that is less on frequency of occurrences and more on interviewees' construction and understanding of the phenomenon. Gioia et al., (2013: 16) re-emphasise their approach by quoting Albert Einstein who stated, 'Not everything that can be counted counts and not everything that counts can be counted'. This thesis applies the same principle. With the complex nature of the phenomenon and volumes of data

available, content selection had to be parsimonious and most pertinent to the research question (Gioia et al., 2013, Eisenhardt, 1989). Finally, the analysis was careful in safeguarding the investigative process by ensuring that the data fits the analysis process and that the data is not forced to conform (Gibbert and Ruigrok, 2010).

4.6.1. Data coding and content analysis

The interviews were recorded using a digital voice recorder, and the voice recordings sent to a professional transcription service which converted voice to text verbatim. The researcher checked all transcriptions against the voice interviews and made necessary corrections for authenticity. In addition, the researcher added to the transcriptions comments in parentheses. These comments were from the observations detailed in the interview notes. Furthermore, vague or industry-specific statements and the interviewees' attitude, emotional and non-verbal signals were also added. In addition to the above, the process also allowed for an invasive analysis, thereby reducing data overload (Miles and Huberman, 1994). Examples of such constructs deleted were environmental, social and geopolitical aspects as these were not in line with the theories.

Themes in this thesis were coded at the latent level. The intent was to select those essential themes that underpinned the phenomenon (Saldana, 2015). Large sections of verbatim text were coded by the researcher, who applied an analytical judgement towards the theory, context and unit of analysis. Consequently, the themes selected were greatly enhanced when placed in logical order (Denzin and Lincoln, 2000, Butler-Kisber, 2010). The coding style made it possible to apply the methodology of Gioia et al., (2013) with first-order concepts, second-order themes and aggregate dimensions as discussed above. With first-order concept coding, the data was analysed into un-distilled categories, whereby a large code list was created. Within this period of analysis, there was no assurance of which theme would stay, due to the possibility of new themes from the interviewees (Eisenhardt, 1989). These codes were analysed in the search for patterns. Further distillation produced a condensed list from the second-order themes, which then led to a search for promising concepts. Once completed, aggregate dimensions, similar to selective coding, provided the central themes, which identified the phenomenon. Along the way, memo writing began in the first coding session and continued all the way through to the final analysis (Corbin and Strauss, 1990).

4.6.2. Within-case analysis

The within-case analysis allowed for the identification of themes and patterns at the macro and meso level along with each individual case. By carrying out a within-case analysis, a vast amount of data was able to be reduced for early analysis (Eisenhardt, 1989) and triangulation with other sources of data countered any weaknesses from the interview data. Triangulation provided confirmation while increasing the internal validity of the thesis (Pauwels and Matthyssens, 2004a). A matrix for each case study was produced whereby data was arranged with various themes and concepts placed along the vertical axis (Miles and Huberman, 1994). This was another form of data reduction, as well as a

constructive method of analysing the data. In addition, cognitive and causal network maps were used to analyse the concepts and their relationships (Miles and Huberman, 1994). The use and understanding of diagrams with boxes (themes and concepts) and arrows (relational dynamics) was used. Such an approach Gioia et al., (2013) state permits greater insight into themes and their relationships.

The within-case analysis also ensured that the data came together. The approach was undertaken to ensure that the researcher could understand the overall case and not just various parts or contributing factors that influenced the case (Baxter and Jack, 2008). Each individual case study was written in a descriptive format with a narrative approach that interlaced the data to the theory (Eisenhardt and Graebner, 2007). The write-up of each case study included verbatim quotes from the transcripts to provide transparency and to enable the participant's direct voice to be accessed by the reader. In addition, each case provided a theoretical framework for its key themes as to its export performance. The process of each individual case being independently analysed provided the foundation for the analysis across all the cases (Eisenhardt, 1989).

4.6.3. Cross-case analysis

The cross-case analysis was fundamental for creating a deeper awareness and elucidation of the phenomenon. This was done by creating an understanding of each level and case's heterogeneity followed by the extraction of the generic aspects of the sum total findings (Miles and Huberman, 1994). The analysis allowed themes and patterns with similarities and differences to be drawn out, analysed and discussed. Furthermore, the multiple case studies within each category allowed findings to be replicated within categories (Eisenhardt, 1989).

A meta-contrast matrix was constructed with the findings from each layer and individual case brought together in addition to causal flow charts. This provided a visual aid to the cross-case themes (Miles and Huberman, 1994). Pattern-matching logic, as suggested by Pauwels and Matthyssens (2004a), was conducted and the factors for the export performance were analysed. From this, meta-patterns were uncovered. Data was analysed in multiple ways. It was arranged and rearranged in multiple perspectives so as to mitigate the initial bias of leaping to conclusions.⁵⁷ This approach enabled the data to be analysed in divergent ways and for the pairing cases to list similarities and differences (Eisenhardt, 1989).

4.7. Data validity and reliability

Regarding data validity, Miles and Huberman (1994: 277) ask an important and rhetorical question in qualitative research: 'How will you, or anyone else, know whether the finally emerging findings are

⁵⁷ Multiple perspectives meant that the arrangements were carried out to look at the data in numerous ways. First was order of CNCA accreditation. Second in order of case studies completed. Third was in order of supply chain exposure. Fourth was firm size from largest to smallest. Fifth was market actors only, non-market actors only and market and non-market actors.

good?'. This is answered by addressing the construct validity, internal validity, external validity and reliability using the works of Miles and Huberman (1994), Gibbert and Ruigrok (2010) and Baxter and Jack (2008). A natural science model was undertaken in this study. In addition, the advice given by Gibbert and Ruigrok (2010: 728) of applying an offensive strategy was also embarked upon, and achieved by presenting the genuine course of events. Furthermore, the research approach is clearly and logically described, with the main aspects such as the interview and case study selection, data collection and analysis authentically detailed.

Specifically for PhD candidates, Baxter and Jack (2008) advise that trustworthiness for novice researchers is vital and can be achieved in five parts. This study fulfilled these parts, as follows. First, the research question was clearly written. Propositions were provided, thereby substantiating the research question. Second, the macro-meso-micro research design was applicable to the research question. Third, purposeful sampling was applied. Fourth, data was collected and managed systematically. Fifth, the data was analysed according to the research design. Furthermore, the researcher's deep contextual knowledge was shown in the overall thesis findings, adding to the honesty of the researcher answering the research question (Corley, 2012). Lastly, it was necessary to highlight major setbacks, hence the description of major challenges, problems and auspicious moments in the research, which, as Gibbert and Ruigrok (2010) state, is required for research rigour.⁵⁸

4.7.1. Construct validity

Construct validity in this thesis seeks to satisfy the claim that the investigation set out to examine the phenomenon using objective methods rather than subjective conclusions (Gibbert and Ruigrok, 2010). Using the recommendation by Dubois and Gibbert (2010: 132), two constructs in this study helped to increase construct validity. The first construct was a clear chain of evidence that will allow future researchers to reconstruct the steps undertaken by the researcher. This begins from the initial questions to the final conclusion. This chapter seeks to address this requirement, with the messiness of the data collection process playing a prominent role in the course of the thesis. Nevertheless, difficulty in reverse-engineering the process might come about due to factors such as timing, dynamism, and the researcher's ability.

The second construct was the adoption of triangulation for greater insight into the research problem through different strategies and sources. Dubois and Gibbert further state that the increased quality of triangulation means that analysis and conclusions increase also. It also aids in compensating for weaknesses in a single data source (Pauwels and Matthyssens, 2004a). Triangulation in this thesis has been discussed above, and the multi-level approach this thesis has been undertaken along with other sources of data to provide this assurance. These sources and their application not only add further to the

⁵⁸ See limitations section and throughout.

trustworthiness of the research design but also strengthen the constructs and any hypothesis to come out of this thesis (Cuervo-Cazurra et al., 2016, Eisenhardt, 1989).

4.7.2. Internal validity

For internal validity, Miles and Huberman (1994: 278) provide three questions for assessing whether the findings to qualitative research are truthful: (1) Do the findings make sense? (2) Are they credible to the people we study and to our readers? (3) Is there an authentic representation of what we are looking at?. Internal validity is achieved when the researcher and the readers are persuaded that all steps have been undertaken to interrogate all the data, whereby the findings are legitimately founded (Gibbert and Ruigrok, 2010).

This thesis applies the recommendation by Dubois and Gibbert (2010), which presents three propositions for internal validity in case study research. The first proposition is the presentation of the causal relationships by using a research framework with a clear picture detailing the link between the variables and the outcome. The second proposition is through pattern-matching the causal relationships in the data. This can either be through predicated or established patterns from different contextual studies. This understanding and explanation of what was done and why was through the coding method which further strengthened the internal validity (Cuervo-Cazurra et al., 2016). The third proposition is that theory triangulation provided multiple and novel perspectives when adopted to verify the findings.

4.7.3. External validity

External validity, also known as generalisability, refers to the theories' ability to explain not only the phenomenon studied but also their capacity to be utilised in other settings (Gibbert and Ruigrok, 2010). While quantitative research can provide statistical generalisation, qualitative research such as interviews and multiple case studies cannot do this. Nonetheless, they provide a clear logic which, as Dubois and Gibbert (2010) state, should suffice for selected cases of between four to ten cases (Eisenhardt, 1989). As stated by Gioia et al., (2013), if the case studies generate concepts or principles with obvious relevance to some other domains, then their generalisability is achievable.

While internal validity is given precedence over external validity in this thesis (Gibbert and Ruigrok, 2010), this thesis seeks also to address external validity. The selection of the case studies researched was not only made on a theoretical basis but also used maximum variation to capture greater transparency in the phenomenon. In addition, many interview participants discussed the Chinese regulations as being applied to a wider product list. In cases where this does occur, the findings can become most applicable to a wider audience.

4.7.4. Reliability

Reliability refers to the degree of consistency and the absence of random errors (Dubois and Gibbert, 2010). This thesis has achieved reliability in relation to the study protocol, with the researcher's emphasis on the interviews and cases selected rather than on replicating the results (Yin, 2003). Guided

by Yin (2003), a case study database and the formulation of a case study protocol provided such trustworthiness. The database consists of all material used in this thesis, and includes all cited text and interview data with both transcripts and audio recordings. In addition, notes taken and pictures obtained from site observations are included. This case study database provides the necessary requirements for thesis reliability.

4.7.5. Utilisation

Utilisation does not make up part of the four natural sciences' model constructs for validity. Nevertheless, Miles and Huberman (1994: 280) discuss utilisation of the research in relation not only to the researchers and the research but also to the consumers. Utilisation of this thesis can provide researchers with the ability to design quantitative instruments for generating and testing theoretical propositions (Welch et al., 2010, Gioia et al., 2013). In addition, the content of this thesis provides application outside the realm of academia, with the theory and findings from the research most applicable to addressing matters in a real-world context (Yin, 2010). Government, industry and individual organisations would gain great advantage from this thesis, as the context is of importance to many stakeholders, as discussed in the external validity section above.

4.8. Ethical considerations

The general nature of the phenomenon and the focus of the research mean that this thesis is considered, from an ethical standpoint, to be low-risk research. An ethical consideration for the design and execution of the research plan was the researcher's competence in gathering and analysing data objectively and accurately (Weathington et al., 2012). Furthermore, under the RMIT University ethics guidelines⁵⁹, the thesis received acceptance under application number 0000015840. All matters on ethics were met, especially with regards to interviewee participation consent. This comprised the secure storage of data and participants' confidentiality requirements. Annual reports were submitted to Business College Human Ethics Network (BCHEAN), with no major issues recorded. Finally, anonymity was afforded to all participants with organisations, groups and individuals assigned codes to protect each, as was part of the ethics requirement.

4.9. Limitations and constraints

As discussed above, Gibbert and Ruigrok (2010) emphasise the need for detailing the setbacks required to increase qualitative research rigour. The complexity of this thesis is detailed extensively above, starting with the original change of qualitative approaches. The research phenomenon investigated became very topical for the industry during this research. Originally, the overall Australian dairy industry enjoyed relatively mature and stable growth but became caught up in the explosion of Chinese consumers searching for clean, safe food. Hence a plethora of coverage from the global business press

⁵⁹ RMIT University Research Integrity, Governance and Systems
<http://www1.rmit.edu.au/staff/research/integrity-governance>

was placed over the industry, especially in Australia. All the major infant formula exporters were affected in some way by the Chinese market. This was either from first round rejection by the CNCA audit, global dairy price volatility, over-optimism of sales in China or uncontrolled distribution channels. This made the phenomenon highly dynamic. An intense focus was required to keeping abreast of developments.

Limitations were present in the sample size available, hence making for a single-phase approach (Yin, 2014). While four firms contributed to the study, eight firms were on the CNCA list. This meant that there was the possibility of another four firms⁶⁰ participating. These firms were all contacted, but all attempts failed, and as the dynamic nature of the phenomenon gained greater prominence in the mainstream, the reluctance to participate in this thesis increased. Another aspect of the CNCA list was only two were recognisable firms with past history in dairy. The remaining firms were mainly OEM processors with little background available. A desktop analysis of the firms did not produce much information. What was discovered was basic information from their websites. One of these firms initially wished to participate in the thesis, an infant formula processor that was owned and managed by diasporic Chinese. Once at the organisation's corporate office, the senior manager did not wish to partake in the research unless RMIT University would provide her firm with assistance in some way.

Another limitation was the unit of analysis researched. A disadvantage of this unit of analysis meant that some firms either had a single or a small number of individuals responsible for the Chinese export market. This was one of the issues with the unit of analysis confirmed by Sousa et al., (2008). While this thesis used a macro-meso-micro approach along with neutral experts, the reader should be aware of the unit of analysis and the limitations in interviewee participants with in-depth knowledge. Nevertheless, the phenomenon and its significance meant that these matters had to be addressed, which the research does by drawing much data from all sources to effectively triangulate the findings.

Collecting the data also had significant limitations. No case study was completed in one visit, as the snowballing of interview participants took its time. As mentioned above, the topical nature of the phenomenon meant that all organisational case studies were affected, and a cautious approach had to be taken. This meant that the researcher approached firms when there was little activity in their business cycles (Australian Stock Exchange reporting or through the June period), changes in regulations in China or other turbulences in the industry. This cautiousness came about when asking for follow-up interviews with CO3 during its period of corporate turbulence. Overall, the need for courteous persistence was required, which took some time.

⁶⁰ Organisation Four of the case studies did not require a CNCA approval for the export of its products to China, meaning that it was excluded from the audits.

Lastly, data collection and analysis was a lengthy process, due to high amounts collected that were outside the remit of the research question. As Cuervo-Cazurra et al., (2016) state, research in IB phenomenon is one that is constrained by complexity, as detailed extensively above. With the phenomenon being topical and mainly brought on by the trading conditions in China for infant formula, a myriad of themes came to light. Nonetheless, while trying to steer the interviewees to the focus of the research, attempts to do so were difficult at times. The reader must acknowledge that the topic was hotly debated and much was discussed on the true nature of the Chinese government's true actions with the CNCA list. Nonetheless, the best attempts were made to address the research question.

4.10. Summary

Chapter Four outlined the research design for this thesis. In understanding that the investigation into the phenomenon required input from multiple actors, an inductive, qualitative, multi-layered research design was employed. A government export promotion was selected at the macro level, while three industry bodies were interviewed at the meso level. At the micro level, four successful organisations were selected, all with differing export business models. The combination of interviews and case studies was designed to capture the success factors that were uniquely observed by these actors. Additionally, the multi-layered investigation tackled the disadvantage that the unit of analysis has been shown to have.

Purposive sampling and a methodical approach to the data analyses was undertaken. This approach was with the coding practice that assigned codes to the success factors for each layer. The analysis of the results was done first individually, then collectively at the macro and meso levels, followed by the combination of the results. The last aspect of this chapter addressed the factors associated with validity and reliability by following the natural science method, and detailed its ethical approach regarding participants, data-handling and storage. The limitations/delimitations were also discussed, as they are a key requirement for the rigour of inductive qualitative research.

5. Chapter 5: Macro-level (government trade promotion agency) and meso-level (industry bodies) success factors

5.1. Introduction

The aim of Chapter Five is to introduce the findings from the interviews with government trade promotion agency and industry bodies, or non-market organisations. In this chapter, the process of exporting infant formula to China has been broken down into two major stages: Pre-market entry (Australia's side operation) and post-market entry (Chinese market operations). The success factors are identified and discussed at each stage.

As this thesis is a multi-layered investigation, the findings are stratified in macro-meso-micro order. The micro findings are the organisational case studies and will be found in Chapter Six along with the overall discussion where the literature and findings are synthesised.

The order for Chapter Five will be first the government trade promotion agency at the macro level. The three interviews are analysed together, and the findings presented. The second is the meso layer constituting the industry bodies. These three industry associations, though different to each other, are grouped together and presented as a collective voice. The macro and meso findings are presented individually with a descriptive analysis. Following on is a cross-case analysis of the two non-market groups, which highlights similarities and differences at macro and meso levels for internal factors for success.

5.2. Macro-level study: Australian government trade promotion agency

5.2.1. Introduction

An Australian government trade promotion agency was selected for the macro-level analysis in this thesis, due to the agency's intimate knowledge of the product/venture requirements for success in China. This government body is responsible for facilitating overseas trade through export incentive programmes. This entity and its representatives provide support services for Australian businesses looking to internationalise their products and services, and include general information and tailored trade services, as well as financial support. This entity in China has eleven offices and a dedicated agribusiness division with seventy-nine staff across China dealing with dairy exports.

Three interviews were conducted. The first, MC, is the China country head who has over three decades of experience in Australia-China bilateral trade. The second, GY, is a senior agribusiness executive located in Melbourne. As part of the Chinese diaspora, this interviewee has significant experience in agribusiness marketing in China. The third, AL, is a senior executive in the food sector located also in China. The interviewees provided an important perspective into the phenomenon investigated. All had significant industry experience and knowledge on the Australian infant formula industry's performance in China.

This government body provided a unique non-market macro view of the key success factors from a Chinese perspective. The findings below will show one pre-market and seven post-market entry success factors. Two meta-themes emerged from this case study: (1) product safety requirements required for market entry, and (2) increased export market commitment at the institutional and marketing levels are vital for success in China.

5.2.2. Pre-market entry success factors

5.2.2.1. *Quality assurance*

As MC explains, the success of Australian infant formula exports to China is underpinned by the quality assurance aspect of the product being Australian-made. With child welfare the number one priority and mistrust in domestic-made infant formula, the product safety aspect is a key factor for success:

The Australian image as a source of clean, green, safe food products is absolutely vital to our continued success in this market. I don't think that you can possibly understate the extent to which Chinese middle class consumers basically lack confidence in domestically sourced food products and when it comes to children, they are ... [the consumers'] prized assets.

AL discussed Australia's competencies in achieving domestic traceability in food production. Maintaining capability to ensure that there is full visibility of the supply chain is a key success factor for Australian infant formula exporters to China:

[The key is] really maintaining the quality and safety aspects. I think the [domestic] traceability aspects are very, very strong in terms of the Australian product. That whole paddock to plate [concept], the whole supply chain—I think that's a key feature for Australian products. I think that's really the key to maintain.

5.2.3. Post-market entry success factors

5.2.3.1. *Market commitment*

GY discussed the liability of size that Australian exporters suffer in comparison to their global competitors. The interviewee stated that in order to succeed, the approach for firms was to be more strategic and less transactional when undertaking exports to China:

In the global competition, we are not big players compared to New Zealand, European countries, and the US. Australian companies need to be more focusing on strategies rather than just achieving orders.

MC stated that successful firms are more market-orientated. Due to their size and risk profile, successful firms are able to dedicate resources to connect with the necessary stakeholders. This interviewee suggested that the key factor needed by firms to succeed is a substantial market commitment in China:

The companies that succeed—and I've mentioned Bellamy's, Blackmores, Devondale, Murray Goulburn—they're getting business with China. They're engaging in the market with the Chinese consumers, with the distributors, with the retailers, as opposed to perhaps smaller companies who don't have the risk appetite to be setting up—paying out a shingle in Shanghai or Beijing. They're just taking orders and shipping products. They're selling to China; they're not doing business in and with China.

5.2.3.2. *Regulatory requirements*

As GY proclaimed, infant formula exporters wanting to be successful in China must understand the regulations around market access:

To market a product successfully in China, there are a number of important factors and one is to understand the market access requirements ... the regulations.

MC stated that regulatory dynamism and uncertainty is a fact of life for infant formula exporters to China. The interviewee's assertion here is that firms need to be prepared to adjust their operations to cater to sudden changes:

I think we just have [to] accept that the regulatory environment in China is prone to sudden change ... It's a fast-changing regulatory environment and it's opaque to an outside observer, so the people will just have to accept that when they've changed (the regulations) and thrust it upon us, that's just the nature of the uncertainty of the China market.

GY stated that the regulations are not consistently implemented in each province. The regulations tend to be interpreted subjectively depending on which region exporters are dealing with. To the interviewee this is one of the major issues of doing business in China:

[The regulations are] not black and white and in uniform standard ... At the state level, it is just general guidelines, and then different regions, different provinces, different ports—they will interpret that into their own practice, and that's the difficulty, actually [with] doing business in China.

GY discussed the product traceability regulations imposed by the CNCA. The interviewee mentioned that each entry port in China has a different level of technological capability for product traceability. The suggestion is that exporters work with their partners in China to either meet the requirements or be proactive and provide traceability solutions if institutionally unavailable. Such a strategy is beneficial from a market entry perspective:

For [product] traceability [requirements], some of the ports take it as [an] important implementation to improve the safety condition in China. For some of the ports, they do not maybe have the technology or knowledge to reinforce that so they don't. But some of the exporters themselves or distributors themselves, even though the port doesn't have any requirement, they implement the system by themselves. They work with the exporters in Australia to have the software setup to give the availability for buyers, the end user, to have the traceability for the products.

5.2.3.3. *Partner selection*

AL stated that having a local partner with a heightened understanding of the import regulations is a key success factor for infant formula exporters to China:

You need a really good local partner that understands all the local regulations. A good partner would understand the labelling requirements in China and understand the customs and the clearance procedures, which were key for any company that wants to be successful in China.

GY discussed the relationship capital or its Chinese equivalent *Guangxi* as a key requirement for partner selection. Harmonious relations can be beneficial to a firm as its partners can assist in any issues that might arise. This becomes a valuable resource to the firm and key success factor:

Oh, [relationships are] very essential because [market] issues can be managed through [mutual] understanding. [In order to] achieve that understanding, it is based on [having a] good relationship and trust ... [It] goes back to Guangxi.

MC discussed the danger of selecting the wrong partner. The interviewee iterated the need for patience in choosing a partner who shares the firm's vision in China:

Partner selection, whether it's [for] dairy or any other product, is important in China, particularly, because [of] the obvious dangers of leaping into bed with the wrong partner. And that's just a case of common sense and good judgment and not leaping into bed with the first suitor that comes along, trying to pinch you into his or her partnership with that particular person.

AL stated that a critical success factor for firms is to spend time finding the right partner so that there is a strategic fit. The interviewee suggested that the right partner can help achieve a more sustained competitive advantage:

I've talked a lot of times about finding the right partner in China [and] if the company's serious about a long-term vision and a long-term strategy to entering into the market. . . . Maybe the right partner doesn't come along on the first go; it may take a few goes before [reaching] the right fit and complementarity. It's really [about] finding a partner that understands what the vision is for that company and how to help them succeed.

5.2.3.4. *Branding*

GY affirmed that the marketing of Australia's country of origin (COO) is very important, as Chinese consumers are very receptive to its perceived quality. The interviewee stated that this was an influencing factor on a consumer's purchasing intentions and a key success factor for the industry to leverage:

In terms of our image globally for [dairy] products, we are very safe, very reliable, and [our products are considered to be] high quality. Also, for the Chinese customers, [and the] consumer in general, I think that our products have a general national image we can leverage.

The COO factor is critical for the industry's success. Highlighting the visit by Xi Jinping to Tasmania, MC suggested that the image of Australia's environmental credentials increases not only tourism but Australia's export sales of agricultural products in China:

(The COO aspect) I think it's actually critical. Witness the impact that Xi Jinping's visit to Tasmania has had on tourism numbers from China to Tasmania. That whole clean, green, bucolic image of Tasmania really appeals and has had a flow on effect in terms of export.

GY declared that Chinese consumers have a more general awareness of Australian brands than any of the corporate brand being exported. A success factor is for firms to make a long-term commitment to brand-building in order to gain competitive advantage:

It takes quite a long time for our brand to stand out in the competition in China. [Currently] I would say that the consumer's perception is more a general perception of the country ... We have Murray Goulburn in Australia as the biggest dairy exporter. Murray Goulburn's brands in China are not at the same level as the other international players. In terms of corporate brands, in Australia, we have the Bellamy's organic [brand] and probably that is the only well-known brand for the Chinese.

5.2.3.5. *Distribution*

GY stressed the importance of distribution, particularly around distribution being the art of business with its sustainability being significant to customer satisfaction. For this interviewee, a key success factor was that of forging a sustained relationship with the distributor and gaining market information independently to meet the consumers' needs:

Distribution is the art of business. It is more complex than many exporters had thought. It is not as simple as you get a deal [then] you are satisfied with the figure. It is about sustainability [and] how to understand the end-user when you're working with a distributor. How can you absorb information from the market and address it yourself to compete, and how can you customise to their (consumers) needs in order to maintain success.

AL suggested that a successful strategy for Australian exporters would be to distribute to Tier Two and Three regions. Though Tier One cities in China have high disposable incomes, the rise of second and third-tier cities is where latent growth can be found. This interviewee correlated the rise of incomes in those cities with the growth in demand for higher quality infant formula products:

[In] Larger first-tier cities like Shanghai, Beijing, [and] Guangzhou, disposable incomes are a lot higher, people do have more access to foreign products...[but] with the rise of consumption levels, particularly in the second-tier [and] third-tier cities, [these are] the cities that are smaller in population and also in terms of disposable income. I think that's probably where we'll see a lot of the growth, for fine imported products.

GY felt that a success factor in China for Australian infant formula exporters is catering to multiple segments, through multiple products, in all the regions in China. Working with numerous distributors geographically allows firms to minimise the risk of single region/product/distributor liability:

Actually, we should have the capability to cover all the different [consumer segment] layers, so you don't have to have just one product that will suit, one type of distribution. You can have the multiple products, and to design a distributorship based on [a] different strategy, [b] different position of products. And then you have the eggs not in one basket.

GY explained the different retail distribution channels available for infant formula exporters in China. This interviewee's advice was that firms decide on their strategic position and then segment the market. Such a course of action would provide a better chance of success in China:

Whether you would like to put [your infant formula] into the premium department store to promote your brand or whether you would like to go through the special shops like the mother and baby shops, there are many different channels [for selling infant formula].

AL stated that the online distribution channel is fast becoming very popular in China. The advice was that firms should use e-platforms as sales channels and to increasing brand recognition, which would increase a firm's success in China:

We're also seeing some companies also promote their products on the online space. Some of the recent Australian sales that we've seen [have been] on e-commerce platforms such as TMall.

MC stated that a key success factor for Australian infant formula exporters in China now was a dual channel strategy of online and retail distribution channels:

The mixture of online and bricks and mortar retail has been important to all those companies that have been doing well in China.

5.2.3.6. *Promotion*

GY brought up an important point about the need for a firm to be strategic in its promotion approach. A long-term orientation is beneficial for future success, as stated below:

Actually it is based on how well you can sell, not just on how much you can sell ... How well you can sell means you have a strategy that will secure your future success.

MC pointed to Blackmores's strategic move in using Li Na, the world famous Chinese tennis player, as brand ambassador for its infant formula range. The promotional strategy has been effective especially with the birth of Li Na's first child. Such a strategy was accurately timed and has been very successful for Blackmores, as the interviewee stated:

In the case of Blackmores, [that was a] very clever selection of Li Na as their brand ambassador ... Particularly astute given she's had a child and they've rolled out Li Na to launch the tie up between Bega and Blackmores of a new infant formula product into the China market, so it's clever marketing and ... [it has], to date, been proving very effective.

GY discussed the different options for promotion of brands in China, alluding to the firm's optimal use of resources in this aspect of the exporting marketing. Although television campaigns in China are

successful, they are also expensive, and opting for online marketing can be less expensive yet still effective:

You have mentioned a number of the skills or platforms that companies can [use to] build their brands. The central TV station, the CCTV ... will give the consumer a very big impression about brand, but I don't think we have companies that can afford it ... It's very expensive, but there are lots of other ways to do the marketing. You can use the e-commerce platform, where you can design the marketing campaign.

The word-of-mouth form of promotion for infant formula is very important for success in China. As GY stated, the traditional form would be through recommendations from friends and relations. Nonetheless the recent online revolution in China has seen consumers seeking the frequency of online comments as a mark of trust. The interviewee's advice was to partner with a marketing agency and incorporate these online forums in China within an organisation's broader marketing strategy:

Yes, it [word of mouth promotion] is very important for infant formula because everyone care[s] about the safety ... as word-of-mouth comments [come from] your friends [who you] trust. [On an] e-platform, that [trust] is based on the volume [of comments] and the perception is [that these] must be very good products and that is why it is so attractive. I think [it is important] to leverage the effect of the word-of-mouth, to have [a] very close connection to the end user through the e-market services. It is quite a good strategy in marketing.

According to AL, another success factor is the use of social media technology in China as an effective way to promote and organise branding in conjunction with a Chinese PR firm:

We've got a number of Chinese social media platforms, so I think it's having awareness of it ... and if it's the Chinese consumers that they're targeting, then it's working with marketing or a PR firm that is able to assist you with some of those key messages so you can target the right audience.

5.2.4. Analysis

This macro-level study from an Australian government trade promotion agency uncovered seven key success factors for exporting Australian infant formula to China. These findings are general to the infant formula in Australia as a whole. Out of these themes, two meta-themes emerged from this case study: (1) product safety requirements required for market entry, and (2) increased export market commitment at the institutional and marketing levels are vital for success in China. Nonetheless, the latter was the

most discussed. This is unsurprising considering the interviewees' relationship with China and the fact that their roles are heavily orientated towards marketing. Below is the analysis for each factor.

5.2.4.1. Pre-market entry success factors

Quality assurance was the only pre-market entry success factor. This theme was centred on the domestic manufacturing and product traceability capabilities, factors which underpinned the quality and safety aspects of the overall Australian infant formula industry. All the interviewees viewed these factors as vital factor for the industry's success. The perceptions from the Chinese consumer had three factors that gave Australia a comparative advantage over its international rivals: (1) Australia's clean green environment, (2) its domestic manufacturing capabilities, and (3) the regulations governing local food standards. In light of Chinese anxiety towards domestic-made infant formula, the interviewees stressed that product quality and safety are the consumers' main priorities. The proposal was that manufacturers maintain the high-quality standards and traceability of the product in Australia. Such an emphasis will be foundational for the industry's ongoing export success.

5.2.4.2. Post-market entry success factors

Six post-market entry success factors were identified at the macro level. The first factor concerns the market commitment of the firm. The findings above detail the need for Australian infant formula exporters to have a greater, deliberate and proactive focus on the Chinese market. As Australia suffers in comparative size to our larger global competitors, a transactional approach is not recommended. Organisations are required to have a strategic, long-term focus in the Chinese market. Furthermore, an implicit requirement for building greater relations is noted. For organisations to achieve greater market commitment, two factors are required: (1) allocating significant resources, meaning that larger firms with greater resource pools would be in a more advantageous position, (2) increasing organisations' appetite for risk due to the dynamism of the Chinese market. Firms who are able to meet these criteria will go a long way to succeeding in China.

The second post-market entry success factor was meeting the regulatory requirements for success in China, mainly with regards to the product traceability regulations imposed by Chinese authorities. While market access requirements are the main obstacle, a critical success factor is not only the understanding of the requirements. Organisations must also have a greater awareness of the regulatory environment's opaque nature and dynamism. Furthermore, regulatory implementation without due consultation is another factor of consideration. The institutional environment in China is a significant factor for exporting firms, but the key success factor will be acceptance of the regulatory environment together with the ability to adjust to the changes when required.

In addition to the above, regulatory interpretation is an issue in China. While regulations at the state level are clear and concise, they are subject to interpretation at the regional level, and therefore

interpretation becomes subjective and contingent on the relationship with officials at their port of entry. These relationships are the key to gaining a favourable version of the entry requirements. This matter is compounded when taking in a firm's partners and their relationships with these same institutional actors. Lastly, the characteristics of the port of entry were discussed. Depending on its level of development, the suggestion was a collaborative approach regarding the sharing of technology. Entry ports that are low on technological capability provide opportunity for exporters to collaborate, especially regarding product traceability technology. Such an approach would create significant relational capital, which in turn could be converted to favourable treatment, especially regarding future regulatory changes and sympathetic regulatory interpretation.

The third success factor was partner selection. It is both a key success factor for market entry and for the firm's export market strategy. For the former, the right partner is able to advise the firm of the necessary regulatory requirements as well as be an influencer at the port of entry. Success in a firm's export marketing strategy cannot be achieved without the right partner in China. Nevertheless, two aspects are vital for exporters to undertake. The first is the due diligence component. Firms are advised to exercise patience and select partners of both ethical and strategic fit. The second is the relational aspect of partner maintenance. Relational management is a vital component, and employing such traditional Chinese practices as Guanxi is an aid in increasing trust and reciprocity among partners. Ability to achieve both creates a partner who is a valuable resource to the firm.

The fourth post market entry success factor was product branding. The findings suggested that COO branding is a key success factor. Organisations are advised to leverage the COO's positive attributes due to its perception amongst Chinese consumers as a quality and safety marker. While the COO is well established in China, Australian corporate brands are still not. It was therefore recommended by the interviewees that Australian infant formula brands need to direct significant resources to achieving brand awareness. Ability to do so will increase their competitive standing against other foreign brands in China. Overall the findings suggest that firms should aim to leverage the strong position of the country brand and build a corporate brand around this. Ability to do so will further increase a firm's success in China.

The fifth success factor was a firm's distribution strategy. The frequency and length of discussion about this theme indicates its significance as the determining factor in a firm's export marketing strategy. Three aspects were discussed. The first finding suggested the overwhelming importance of product distribution and its utmost importance to the firm's success in China. The recommendation was a mindset away from a transactional approach towards a strategic, long-term attitude. Furthermore, a high degree of collaboration is required, much like the requirement for partner selection. The ultimate purpose of this strategy is to gain market knowledge. This information is not only leveraged to

customise products to suit the market's needs, but provides learning capabilities for the firm. Done successfully, firms would be able to gain and sustain a competitive advantage.

The second aspect of distribution strategy discussed was geographical distribution strategy as a key success factor. The findings suggest that the three tiers of China's geographical regions should be taken advantage of by understanding their advantages and disadvantages against a firm's resources and capabilities. Understanding the trade-offs between each must be incorporated into a firm's strategy. While Tier One cities have higher disposable incomes and a predisposition towards imported goods, their growth is slow. Hence latent growth in China can be found in the less developed Tier Two and Three cities. This underdevelopment is seen in infrastructure, institutional and commercial aspects. Nevertheless, the findings suggest that catering to all three tiers should be attempted with a bespoke product, brand and individual distributor for each. This strategy would allow firms to capture the advantages of each tiered region while mitigating against putting all one's eggs in one basket.

A third aspect of distribution strategy was the selection of distribution channels, another vital area of success for infant formula exporters. Numerous channels are available for offline distribution, including specialty baby stores and supermarkets. Nonetheless, the firm's strategy should determine the distribution channel to ensure strategic fit. Furthermore, the uptake of online shopping in China is also a key consideration, with successful exporters applying both an online and an offline strategy. The findings suggest that the use of both online and offline channels is a key to success. The online distribution channel also provides a platform that overlaps as a promotional tool, and therefore embracing this channel not only provides a platform for sales but is increasingly used as a promotional resource, as will be discussed below.

The sixth success factor was a firm's promotional strategy. Three factors for success in this area were extracted from the findings: (1) that a firm's promotion strategy and resources be aligned, especially financially. Firms undertaking a promotion strategy, it is advised, require a cost/benefit analysis, with the aim for firms to not over-extend their resource base; (2) a promotional approach. Interviewee MC highlights the brand ambassador strategy for Blackmores as particularly successful. The findings suggest that firms are required to be savvy in their promotional strategy; (3) a promotional strategy using the online channel much like the distribution strategy mentioned above. Websites and context-specific social media platforms are a go-to for consumers, and the comments left on these sites become a word-of-mouth form of advertising. As this type of advertising plays a significant role in China, its online manifestation becomes key, therefore influencing future purchasers. These e-comments are digital currency to firms, and the findings suggest that organisations should seek ways to increase their leverage from comment sections within Chinese e-platforms. The recommendation was to apply such a strategy of carefully selecting a PR partner who can deliver these outcomes.



Figure 5.1. The government trade promotion agency’s perspective on export performance to China

To conclude, this macro-level study was conducted by Australia’s most prominent government trade promotion agency. The findings provide an in-market perspective of the key success factors. With Figure 5.1 above showing the themes from the case study, two meta-themes emerged from this case study: (1) product safety requirements required for market entry, and (2) increased export market commitment at the institutional and marketing levels are vital for success in China. The one pre-market entry success factor and six post-market entry success factors make up the key success factors for macro layer.

5.3. Meso-level study: industry bodies

5.3.1. Introduction

For the meso-level investigation in this multi-layered thesis, Australian dairy industry associations were selected for this category. With the Australian government trade promotion agency at the macro level, it was logical to include industry bodies at the meso level. This was due to the industry bodies being non-commercial and domestically based, providing a mid-point analysis of the phenomenon.

Three industry associations were selected. First was the peak body for non-farm/commercial organisations. An interview was conducted with one of its senior executives PS. The second was the industry body responsible nationally for both commercial and farming groups, and the largest entity providing the greatest work to promote the commercial interests of the dairy industry as a whole. A focus group of three interviewees, SD, PM and SX, was conducted. The third industry body was specific to infant formula producers and marketers within Australia and New Zealand. Its cross-Tasman jurisdiction provided significant insight considering that New Zealand is the world’s largest dairy exporter to China. An interview was conducted with its most senior executive JC.

While many industry bodies exist, as shown in Chapter Two, the three that participated had direct interest in increased exports of Australian infant formula to China. The inclusion of these particular industry bodies provided the meso-layer analysis with greater breadth and depth. This is clearly shown in the descriptions of each above. Two meta-themes emerged from this case study: (1) quality assurance capabilities along the whole supply chain to meet the institutional requirements in China, and (2) firm’s

export marketing strategy centred on distribution and COO branding as requirements for China as key success factors.

5.3.2. Pre-market entry success factors

5.3.2.1. Quality assurance

SD discussed the quality assurance aspects of Australian dairy products across the whole domestic supply chain. For the interviewee this was a critical success factor to the industry's success globally:

Australia's reputation for highest quality goods is actually there. We have a very good, strong, robust food safety system here that actually regulates from as low down as farm inputs, to chemicals used, feed stocks that might be used, veterinary medicines that might be used on [the] farm, right through to transporting the product to the destination. We're quite confident that the traceability element from the Australian end is actually quite good: it's tested regularly, it's enforced regularly.

PS explained that Australia's domestic regulations ensure the safety standards are met:

We do have some very good quality control standards applied through the state jurisdictions.

According to JC, the quality and safety of Australian infant formula manufacturers is a certainty. This is implied by the interviewee's statement that the quality assurance aspect is achieved by Australia's high standards of manufacturing, and is hence a topic that barely needs mentioning:

I don't think the quality of the product is such an important thing because that's almost a given. Australia does have good quality products, it does have good manufacturing processes, and it does meet the regulations very well.

SD commented that while Australia enjoys a reputation for high-quality manufacturing, a major concern is that breaches can occur in safety standards. The interviewee cited how exporters could jeopardise the industry if any such violations occurred. The important point for the industry is that all actors engaged in infant formula exports to China pay particular attention to product quality and safety aspects:

There's an element there of reputational risk to the broader Australian dairy industry from people [who] don't actually have a total grasp of what it is that they're doing, the risk that's associated with dealing with a perishable good, and the broader implications that might have for the whole dairy industry.

5.3.3. Post-market entry success factors

5.3.3.1. Product traceability

PS explained that the CNCA auditors that rejected Australian manufacturers from gaining entry licensing was due to the manufacturers' inability to have oversight over the whole supply chain. The key factor for success in gaining market access was Australian manufacturers having made a significant investment in ensuring product traceability along the whole supply chain:

It all came down to, in many cases, their inability to demonstrate control of the whole chain, and serious control, and economic investment in and control of the whole chain. It wasn't just good enough to have a contract with a company to deliver their canning procedure to a certain standard.

SD explained that the CNCA auditors were not only seeking assurance of the firm's domestic traceability capabilities but that these capabilities were extended to China. The critical factor from the CNCA audits was the relationship that Australian exporters have with their Chinese partners:

They [the Chinese authorities] came here, and they audited a number of different factories and a number of different food production quality systems. In every case, the focus was wanting a very clear picture of what the product traceability was. Not just how it operates here in Australia, but how that transfers to the partnership with the importing person in China.

JC explained the importance of supply chain integrity and product traceability for infant formula exporters to China. The interviewee highlighted that many firms allocate financial resources to come up with technologically innovative solutions that Chinese consumers can access to reduce their concerns:

The supply chain integrity and traceability [are] really important. A lot of companies are investing a lot of money for traceability into their products ... There's a little thing on the cans that you scan (QR codes) on the supermarket shelf with your iPhone. It will tell you where the product was made.

5.3.3.2. Partner selection

PS unequivocally declared the importance of networking as a key success factor for Australian infant formula exporters in China:

I think undoubtedly networking is imperative.

Understanding the cultural aspects of doing business in China is a key factor, as JC stated, but relationship-building is important too, and Australian infant formula exporters require the building and maintenance of partner relations for their ongoing success:

What we do know about the way the Chinese do businesses is it's about building the relationship ... The Chinese require [a] close relationship with people that they do business with.

As SD advised, from a market entry perspective, a key success factor is the selection and management of a firm's importing partner. Selecting a partner with strong institutional contacts and building relational capital helps to reduce any market issues a firm is likely to face:

For somebody setting out to export into China, it's imperative on them that they have a really strong relationship with their importing partner, who needs to have a very strong relationship with the CIQ agency that they're going to use. I'm not implying that they need anything untoward, but they certainly need to have a good relationship to be able to resolve issues as they might arise.

JC described the infant formula market in China shifting in 2014. Before this period, exporters made a concerted effort to meet the regulations, while afterwards, exporters focused more on market competition. For market success, partnering through the firm's network capabilities is a vital success factor:

Last year [2014] the issue for industry was compliance and the changes that were happening. This year [2015] the issue of industry is the battle for market share, [the] battle for consumers, [the] battle for channels, [and] distribution channels in the market, and you can't do that without good networking.

5.3.3.3. *Country of origin branding*

Australia's natural endowment is a key success factor for Australian infant formula exporters. Our farming practices and general environment provide the ideal conditions for milk production. PM explained that because of these conditions the COO factor is an advantage for the industry compared to our global competitors:

If you ever look at a carton of milk anywhere in the world, you typically see a picture of a cow on the side of it out in a nice green field, and we're able to say, "That's exactly what it looks like when you come to Gippsland, or anywhere in Australia. That's our farming system." Compared to in China, it's an intensive housed system; in the Middle East it is; in Europe, they're housed for at least part of the year, and fed substantially on grain or supplementary feed.

JC explained that the COO aspect for Australia infant formula exporters was used as a quality assurance symbol and was of the highest standard in China. The interviewee explained that the COO aspect has much greater weight over the organic label with regards to the Chinese consumers' purchasing intentions:

In Australia, we've got a clean green image and people are attracted to that... it must be good. I was talking to someone who is in the organic business and I was saying that consumers aren't so much interested in organics as the country of origin. If it is Australian then it's something that they trust. Certainly the Australian brand is very high in China.

5.3.3.4. Distribution

JC underscored the importance of selecting the right distribution channels. With market share limited to Australian exporters due to the predominance of multinationals in China, the right distribution channel is vital for success:

The importance for our exporting in China is about making sure that they (Australian exporters) develop good distribution channels to bring their products to market in China. Once they get it into China they've then got to distribute it and as I said it's about battle for their market share. The non-multinationals are fighting over 5% of the China market because 95% of the China market is in the hands of the multinationals.

JC further explains the key success factor for New Zealand's Fonterra, the largest dairy exporter to China, is due to its strategic partnerships with distributors in China. The recommendation is that Australian exporters do the same as well:

Fonterra in New Zealand has got a partnership with a Chinese company, so it seems to be that a lot of the industry certainly in New Zealand is developing partnerships with China as a way of securing their market channels into China.

JC discussed the size of the Chinese market as being too large and resource-intensive to completely exploit. A key factor for Australian exporters is to have a geographical distribution strategy with selected regions to distribute their products:

Some people are concentrating in some areas and others are concentrating on others. The thing that people understand is that you can't conquer China, because you have to do it in bits and pieces. There are 31 provinces, 653 cities and 2,800 counties.

SD explained that one selection criterion is for a distributor to have a strong local presence and significant market intelligence in the chosen region. The importance of such a strategy is that these distributors provide the exporting firm with a greater insight into the local environment:

Individual distribution channels are probably more comfortable to be able to deal with local representative who understands the local environment a bit better.

Both SD and PM commented on the success of Norco, a dairy cooperative from Northern New South Wales. Exporting high-value fresh milk, the firm has employed a targeted geographical strategy in conjunction with its partner by using one entry point into China. The success of this strategy is due to Norco and its Chinese partner concentrating their efforts and working very closely with all the stakeholders within that one geographical area:

The reality is Norco have been successful in getting some shipments of liquid milk or fresh milk, as we like to call it, into the Shanghai market ... They've worked very specifically with one CIQ office, and that's enabled them to do that.

5.3.4. Analysis

This meso-level study from three industry associations' uncovered five key success factors for exporting Australian infant formula to China. Much like at the macro-level, these findings are general to the industry as a whole. Out of these themes, two meta-themes arise: (1) quality assurance capabilities along the whole supply chain to meet the institutional requirements in China, and (2) the firm's export marketing strategy centred on distribution and COO branding as requirements in China are key success factors. Nevertheless of the two, the former is much more pronounced, mainly due to the industry bodies being located in Australia and having a greater involvement in facilitating market entry. Nevertheless, the export marketing strategy of the firm was discussed mainly JC due to the interviewee having a unique insight due to its association having product and context advantages. Below is an analysis of each factor.

5.3.4.1. Pre-market entry success factor

Quality assurance was the only pre-market factor at the meso level. The interviewees all viewed the quality assurance capabilities of the industry as foundational for success, and attributed this success to Australia's regulatory standards underpinning quality assurance at the manufacturing level. Maintenance of these standards has provided the industry a competitive advantage globally, but while the quality assurance aspect is a given in Australia, the interviewees highlighted its potential weakness. Whilst quality assurance plays a prominent role in China (as detailed in Chapter Two) and most of the industry's success relies on its safety credentials, the reputation the industry as a whole enjoys in China

can be severely damaged if there is a transgression by a local actor. In summary, though, quality assurance and its maintenance is foundational and a pre-market entry success factor.

5.3.4.2. Post-market entry success factors

Four post-market entry success factors were identified at the meso level. The first success factor was product traceability requirements, an extension of quality assurance and a key criterion for CNCA audits. With Chinese auditors requiring supply chain transparency, firms that do not pass show little visibility or product traceability. The inability to meet the product traceability requirements was also interpreted by interviewees as showing a lack of commitment towards the safety of the product beyond a firm's own borders. There were two methods firms used to meet the requirements: (1) to internally integrate significant portions of the supply chain and demonstrate transparency from Australia to China, and (2) to demonstrate close integration with its supply chain partners. This was mainly for OEM producers of infant formula.

Supplementary to the institutional requirements for product traceability, the technological aspect required is also a key success factor. Investment into technologies that address the concerns of Chinese consumers was a key factor for export success. Many of the product traceability requirements can be carried out by technologies that consumers have access to, and provide assurances as to the integrity of the product as it has moved along the supply chain. Overall, meeting product traceability requirements has overcome a barrier to market entry and is also a potential marketing success factor at the commercial level.

The second post-market entry success factor is a firm's partner selection. This success factor for market entry requirements (mainly for OEMs) overlaps with the export marketing strategy of the firm. While the interviewees discussed the importance of networking in the Chinese market, the networking initiative manifests itself as selecting partners and building relationships. The findings suggested that firms with the capability to do so will increase their chances of success due to differences in culture. The cultural aspects prevalent in China are different to those in Australian, and so the suggestion is that these cultural differences can be avoided with the right partner. These differences, especially at the institutional level, are where the right partner can resolve any regulatory issues.

Moving beyond institutional requirements, partner selection and relationship-building is also a key requirement for the firm's export marketing strategy. With market intelligence a key resource to the firm, a firm's partner provides a crucial conduit between the market and its requirements and the focal firm. Overall, partner selection and relationship-building are seen as success factors playing significant roles at both institutional and commercial levels.

The third post-entry success factor is COO branding, a logical extension of the pre-market success factors discussed above. The reputational benefits from the quality assurance findings have moved into the marketing realm, and the interviewees all agreed that Australia has a comparative advantage over its global rival. This is especially so given the perception that Chinese consumers have of Australia as a source of clean, safe food. One interviewee advised that such was the reverence of Australia's COO aspect, that it outweighed organic labelling in China as a cue to product safety and quality. Australian COO branding is therefore a key success factor for the whole industry in China. Nonetheless, the advantages that stem from the COO aspect are enjoyed industry-wide and can be leveraged in China.

The fourth post-entry success factor is a firm's product distribution strategy. With much of the Chinese market under the control of multinationals, this aspect of the export market strategy was greatly discussed and has two sub-factors. The first is the importance of selecting the right distributor, a factor that has much in common with partner selection. The interviewees intimated the need to select a distributor with in-depth knowledge in their geographical locale. Furthermore, this local knowledge should be complemented with the selection of the right distribution channel.

The second sub-factor was a firm's geographical distribution strategy. Due to the vast size of China and the opportunities available, the approach to having a successful geographical distribution strategy was twofold: (1) partnering with individual distributors who have deep market knowledge in their domain, (2) the selection of distributors with established relationships at the institutional level. This was a must due to the difficulties in market entry and the ability of the distributor to resolve them on behalf of the firm. With the focus group citing the case of Norco, having a strategic approach that targeted a single entry point was the first step. This strategy was then complemented by the selection of a well-established distributor in that region. The advantage for the focal firm was the ability to concentrate resources into establishing greater market access, hence the suggestion of building and maintaining of relationships with stakeholders within a small geographical locale. This was much preferred to distribution over a wide area throughout China.

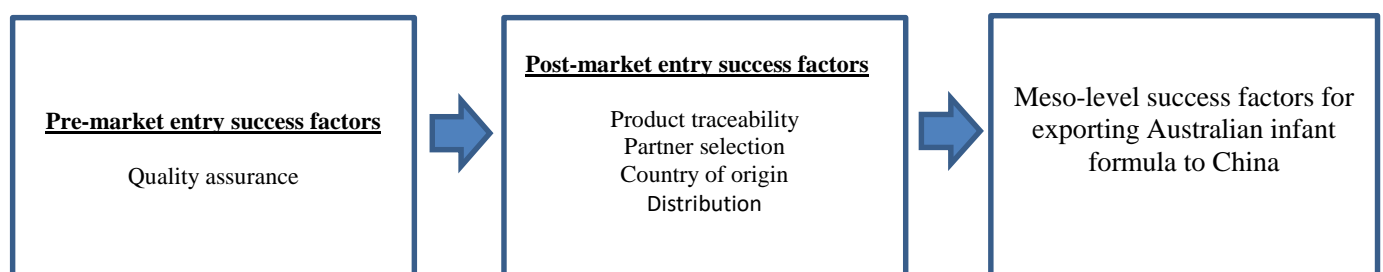


Figure 5.2. The industry bodies' perspective on export performance to China

To conclude, this meso-level study provided an insight from three industry associations as to the key success factors for exporting Australian infant formula to China. Furthermore, their positioning between the market and the exporters provided the logical conduit in this multi-layered study. With Figure 5.2 above showing the themes from the interviews, two meta-themes were uncovered: (1) quality assurance capabilities along the whole supply chain to meet the institutional requirements in China, and (2) firm's export marketing strategy centred on distribution and COO branding. The one pre-market entry success factor and four post-market entry success factors make up the key success factors for the meso layer.

5.4. Similarities and differences between macro and meso success factors

The aim of this section is to cross-analyse the findings from the macro and meso interviews, with Table 5.1 below summarising key success factors. At the macro level, the interviewees' significant contextual experience has meant they had a closer view to the consumer side of the export trade, while the meso layer was less exposed. It is this axis/periphery relationship that is shown, with the greatest divergence recorded in the findings regarding a firm's export marketing strategy. Hence the macro interviewees placed a greater emphasis on these factors, with the exception of the nutritionals industry body. Nevertheless, as will be seen below, there is much overlap between success factors at macro and meso levels.

Level	Pre-market success factors	Post-market success factors
Macro	Quality assurance	Market commitment Regulatory requirements Partner selection Branding Distribution Promotion
Meso	Quality assurance	Product traceability Partner selection Country of origin Distribution

Table 5.1. Key themes at the macro and meso levels

Quality assurance as a pre-market entry success factor was indicated at both macro and meso levels. Both studies stated that this theme revolved around the domestic regulatory frameworks that ensured the production of quality, safe products. Further key components were domestic capability for product traceability (ensuring quality and safety of the product), and the natural environment, the latter of which was a contributing factor to overall quality assurance. This was indicated as the clean green image that is viewed by Chinese consumers, and also tied with COO marketing, as discussed below. Nonetheless, this particular asset can also be a liability to the industry's reputation. As this advantage is applied industry-wide, the findings suggest that any transgression can negatively affect all industry actors. Much of the angst from the interviewees pertained to inexperienced exporters. The concern at the industry level was that some exporters lack the necessary capabilities to ensure that quality assurance standards are met.

Post-market entry success factors between the macro and meso levels showed divergence. The first divergent factor was from the macro analysis, that of market commitment, where the interviewees suggested that the need for organisations to be prepared for long-term engagement, and focused with a strategic outlook was a key success factor. Increasing a firm's market commitment means that firms require significant resources to be dedicated whilst increasing their appetite for risk.

Understanding the general institutional environment and administration of regulations in China was a key success factor at the macro level. The findings stated that this was a key success factor for the firm from both market entry and competitive perspectives. The interviewees discussed this generically, with one such matter being the dynamic nature of the regulatory environment. This was a matter that has had significant impact on exporters. Furthermore, the ability for regulations to be subject to interpretation was a key consideration that exporters must work around. The macro interviewee's signalled ability to adapt to this regulatory environment was a significant success factor.

While the macro interviewees discussed institutional and regulations generically, the industry bodies at the meso level focused on industry-specific regulations, with product traceability requirements issued by the CNCA attracting most attention. The disruptive effects and the roles of industry bodies as advocates for the industry can be seen. The findings suggest that in order for Australian exporters to pass the CNCA audits, quality assurance through the whole supply chain is required. The industry bodies stated that supply chain traceability was required in two ways: (1) by having major supply chain nodes in Australia and China internally integrated, and (2) especially relevant to OEM exporters, to provide evidence of their closeness to their selected partner. Overall, these obligations meant that exporters had to increase their resources to fulfil the CNCAs requests. The CNCA requirements corroborate the findings at the macro level for exporters to increase their market commitment.

A derivative of the product traceability requirements is technology for its facilitation. Investment into product traceability technologies brought consensus at both macro and meso levels, and this

technological aspect and its convergence suggest its importance as a future key success factor. Such convergence provides greater weight to the findings when classified as a key success factor. This technological aspect was not a key requirement but an extension of a firm's product traceability capabilities. The interviewee alludes to its use in providing greater quality assurance to both regulators and consumers. It also provides a channel by which to increase collaboration with regulators. This is an important factor that is discussed below.

Partner selection as a key success factor provided further evidence of convergence between macro and meso findings. Much like the above, great weight is placed on partner selection as a key success factor. The industry bodies discussed the need for cultivation of relations within Chinese networks and finding suitable commercial partners, while the macro-level interviewees highlighted the selection criterion and due diligence for partner selection. The advice pointed to a need for patience, strategic fit and long-term orientation to partner selection, very much in line with the market commitment theme above. Both levels concurred on the relationship-building aspect in addition to the selected partner's capabilities as key factors for success. Additionally, many of the capabilities the interviewees discussed concerned a partner's ability to help exporters overcome regulatory requirements. With the discussion above with regard to regulations, this aspect is vital from a market entry perspective.

Product branding as a key success factor for the industry was similarly discussed at both macro and meso levels. Nevertheless, most attention regarding product branding was on the leading role of Australia's COO branding. Such COO characteristics are very much tied to quality assurance, as discussed above. The COO brand is seen by Chinese consumers as a guarantee of quality and safety. Furthermore, the findings from the meso level showed the higher value placed by Chinese consumers on the COO aspect over organic-branded infant formulas. Despite this, at the macro level, a disadvantage of the COO aspect was shown from the findings. This was due to Chinese consumers having a general perception of Australian infant formula over one specific corporate brand. With little to no Australian corporate brand presence in the Chinese market, Australian corporate brands were at a disadvantage. The suggestion at the macro level was a need to build a firm's corporate brand and leverage off the COO branding as a key success factor at the firm level.

Much like partner selection and product branding, the distribution theme was seen as a factor for success. Nevertheless, the difference here that is distribution was discussed at both macro and meso levels in greater quantity and detail. It was also the export marketing strategy factor that was most discussed, signifying its importance. Three sub-factors were a part of the findings needed for exporters to be successful. The first was selecting the right distributor. This cue was provided at the meso level when an interviewee described Fonterra's successful distribution strategy. The key for Fonterra was selecting the right distribution partner as its overall key success factor. This aspect is much the same as partner selection above. The second success factor was the geographic distribution strategy in two parts

that firms should undertake: (1) selecting regions within China that meet the firm's overall strategy, and (2) then selecting a distributor with the best market knowledge, contacts and strategic fit. The findings touted this course of action as a successful approach to distribution in China. The third factor is distribution channel selection. Not only were different retail formats discussed, such as supermarkets and specialty infant stores, but also the online distribution channel, which is very popular in China. The combination of both online and offline distribution channel strategies was discussed as a key success factor by the macro interviewees.

Last of the findings was the promotion strategy of a firm's export marketing approach and showed the greatest divergence. This was solely discussed by the macro-level interviewees, which can mainly be attributed to the fact that the macro interviewees into the Chinese consumer needs. Their suggestions were that organisations be strategic with their promotion strategy, and that a balance is required between costs and benefits of a given promotion, as well as the ability to seize opportunities when they arise. The latter, opportunities, was expressed when describing the successful brand ambassador strategy of Blackmores's infant formula promotion.

Another successful strategy from a promotional perspective is the use of e-commerce and social media platforms to promote products. This again showed the insight the macro interviewees had. E-commerce sites are primarily the online distribution channel as discussed above. Nevertheless, they have also a dual function as a promotional tool. Along with social media platforms, these online spaces provide discussion pages where consumers provide feedback on products. The ability to harness the online promotional tools along with marketing partners would create a powerful promotional strategy with a wide coverage throughout China.

5.5. Summary

Chapter Five introduced the findings sequentially at macro and meso levels. These non-market entities provided a cross-analysis of the key success factors for exporting Australian infant formula to China. It can be seen in the findings at the at the macro level, greater weight is placed on the export marketing strategies as key success factors while market entry regulations are discussed without much detail. Nonetheless, at the meso level, a more balanced discussion with equal parts of market entry and export marketing factors, occurred. The convergence of findings suggested that quality assurance, product traceability, partner selection, distribution and product branding were also key success factors.

6. Chapter 6: Micro-level (company) success factors and overall discussion

6.1. Introduction

The aim of Chapter Six is to provide first the organisational findings and second an overall discussion. The micro-level findings are presented to complete the multi-layered analysis. This is done by selecting four organisational case studies with heterogeneous strategies towards their export performance. This micro-level analysis provides the final part to this thesis' findings. As the criterion for this research was dictated by the unit of analysis, a bespoke solution was required to fulfil the requirements for validity and reliability, and therefore the macro-meso-micro level layers provided the necessary triangulation (Golafshani, 2003).

Much like the structure of Chapter Five, which focused on macro and meso findings, the first section of Chapter Six presents findings for each of the four case studies individually. In addition, the process of exporting infant formula to China has been broken down into two major stages: pre-market entry (Australia's side operation) and post-market entry (Chinese market operations). This is in line with the findings at the macro and meso levels. The success factors are identified and discussed at each stage. Each case study is unique in its strategic orientation, with varying internal exposure in the supply chain, so the cases are presented in order of least to greatest exposure to the supply chain. Such a display of the findings shows the similarities and differences in key resources and capabilities required at pre- and post-market entry. A cross-case analysis then explores the key success factors at the organisational level in a descriptive format.

A general discussion makes up the second part of Chapter Six. This section has two subparts with the UM theories, Miles and Snow Typologies and RBT discussed. The UM and Miles and Snow Typologies are first applied to each case organisation. This discussion will show that both theories are pertinent to the study of export performance, although the UM is challenged by the findings. RBT is discussed in the second subpart and provides the lens into factors for success. The findings confirm the usefulness of RBT as a midpoint theory for new research fields and identifies the individual factors that are coordinated in a logical order, from the manufacturing component of the supply chain to the consumer and looks to meet the requirements for market entry and market competition.

6.2. Micro-level study: Findings from the exporting Australian infant formula organisations

6.2.1. Case organisation one: An ingredient manufacturer and exporter

6.2.1.1. Introduction

Case Study One (CO1) is a large-sized, privately owned Australian dairy ingredient company headquartered in rural Victoria Australia. The firm has three corporate locations in Melbourne, Hong Kong and Tokyo. It began its corporate life as a family-owned enterprise, but a strategic change in 1991 saw it move from a liquid milk business into a yogurt and cheese operation. CO1 then expanded in 2009

by selling a 45% stake to an Asian conglomerate. The proceeds were used to commission and build a milk drying facility, which increased its competitiveness in Asia. The firm's revenue has grown from \$140.6 mil in 2010/11 to \$ 225.1 mil by 2015/16. This provides an indication of the size, growth and capabilities of the firm. Approximately 85% of production is exported to Japan, the Middle East, China and the rest of South-East Asia. The firm's China strategy is centred on infant formula.

CO1 has the most rudimentary export strategy amongst all of the case studies, namely to function solely as a customised dairy ingredient exporter, as seen in Figure 6.1 below. It maintains this through an emphasis on tailoring its goods for end-product manufacturing. Great importance is placed on food safety, innovation and technology through customised offerings, and promotional material by CO1 emphasises these as central tenets. At the corporate level, CO1 has a flat organisational structure with the CEO playing an active role in the day-to-day goings-on within the firm.

With its simple export strategy, CO1 was chosen due to the firm meeting the selection criteria of being a key infant formula ingredient exporter to China. CO1 is an Australian-domiciled, non-multinational organisation with domestic manufacturing and significant export experience in China. Furthermore, its unique business model shows a successful path to exporting into China that is unique amongst all the case studies. The interviewees DR, BT and DO are from the firm's corporate division and have extensive knowledge into its export performance in China. One unique aspect to the firm is that it did not require CNCA approval to export to China due to its business model of bulk ingredient manufacturing and exporting. These regulations were only for canned products and not for the bulked goods that CO1 exports. Two meta-themes emerge from this case study: (1) the first focuses on how the firm's dynamic quality assurance capabilities play a key role in succeeding in China, and (2) the focus on the appeal of the firm to its partners, as well as the selection and maintenance for overall success. The findings below will detail these.

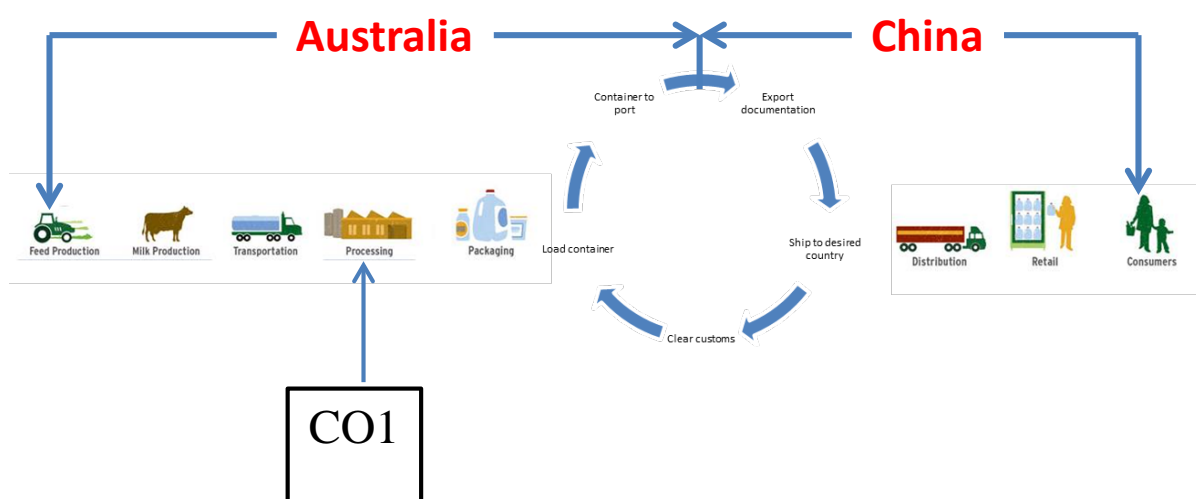


Figure 6.1. CO1's internal exposure to the Australia-China infant formula supply chain

6.2.1.2. Pre-market entry success factors

6.2.1.2.1. Advanced manufacturing capabilities

DO explained that the core business of the firm is as an ingredient manufacturer, hence the absence of exposure downstream in the supply chain. For the firm, the internal emphasis on manufacturing is the key to its export success:

We don't try and move further down the supply chain of owning the brand and then becoming distributors and wholesalers. It's not our game.

BT explained that the sophistication of its manufacturing capabilities is what makes the firm unique within Australia. In addition, a key success factor of the firm is its ability to offer bespoke products to clients:

We've got this nice spray [machine for infant formula], this nice piece of kit for doing infant formula [which can offer specialised products to clients]. We can offer that, and we're the only manufacturers in Australia that are doing it at the moment.

With a focus on the firm's product quality, DO pointed to the advantage CO1 has in its manufacturing capabilities. New and technologically advanced facilities, the interviewee highlighted, make even the basic product offerings obtain a premium price:

The capability that we have down in the plant there is probably higher than a lot of the other companies in terms of the kit [equipment]. It's all relatively new. It's state-of-the-art. It can produce, even in that commodity [basic] category, good quality premium commodity milk powders.

DO also pointed to the firm's size relative to its larger competitors as an advantage. The flexible and responsive nature of its manufacturing capabilities means it can offer bespoke services to its clients. This feature provides the firm a unique advantage against its larger rivals:

[The customer asking] "Can you test for all those different things in that particular batch?" We would say, "No problem." The bigger company struggles with that because it's outside their system ... Call it receptive, flexible to individual customer requirements, and particularly at the high-quality, more sensitive end, you tend to find customers are more demanding of their requirements both in terms of the product itself and the testing and the specification of that product. We are prepared to go through those requirements perhaps more than big companies can be.

BT explained how the firm's advanced manufacturing capabilities mean they are able to tailor a product to a particular client by citing a case within a Chinese context. The interviewee states that CO1 is the only firm in Australia with the ability to provide individualised offerings:

We [are the only firm in Australia which] can offer an OPO-based product [Oleic and Palmitic Fatty Acid Structure], which is a specific fat compound that goes into the base powder, which Chinese really seem to like now.

6.2.1.2.2. Product traceability capabilities

DR explains that the primary reason for the firm's ability to overcome the safety concerns in China is due to a core focus on its quality assurance capabilities from its production facilities:

Safe, quality dairy products. That's something that we build our business around.

BT gave details of the internal quality assurance mechanisms that the firm has implemented in light of the new regulations for infant formula. The interviewee described how the new production facilities are well resourced to accommodate the traceability requirements:

We've got a very good traceability all the way throughout our process. That's one thing [that is] a key factor for CO1, especially our nutritional products, it's a new line. We've been able to add all that technology in from the start. We haven't had a drier that's ten to fifteen years old and try to adapt (our technology to the changing requirements).

DO explained that the firm's customers are reliant on its product traceability capabilities to meet their regulatory requirements. The firm's technical proficiencies means that its clients can easily leverage its in-house traceability system:

There needs to be traceability for the brand, even though it's not our brand—it's a third-party brand—back to the factory, back to the farms that produces that milk. The traceability thing is very important and a lot of the companies market their brand or market their products on the basis of, "Yeah, we can trace this right back to the farm in Australia or right back to the factory."

6.2.1.3. *Post market entry success factors*

6.2.1.3.1. Partner selection

DR clearly states that the firm's business model means partner selection is a sensitive process of strategic fit:

We're a B2B business. So we work direct with just large manufacturers and they're very selective about working with us, and we're very selective about working with them.

DO explained that the firm's high-value products require partners who have the capacity to utilise the firm's offerings and who are prepared to pay a premium for their products:

With our product mix [we] tend to be a bit more selective and targeted in the companies that we do business with. We're trying to target those companies who are prepared to pay for a premium product.

BT explained the cultural importance of having the right partners in China. With unorthodox communication channels, the right partners have provided the firm market information in advance, especially with regards to regulatory changes:

They [the partners] all seem to know someone who's in the government who's told them something. That filters all the way through ... That's the way China does business. You know that's through word-of-mouth or contacts.

6.2.1.3.2. Relationship management

DO explained that relationship management is best achieved when organisations have key personnel in China. The interviewee explained that it shows commitment and is effective in keeping contact with the firm's partners:

Relationship is very important in doing business in China. Trust and relationship, and I think having somebody on the ground is probably a demonstration of commitment to the market. Communication is important.

BT explained the cultural mechanics of relationship management in China. The firm has recently moved a senior manager to deal directly with the CEOs of their partner organisations. The interviewee discussed how the forging of closer relationships helps the firm to get information on regulatory changes:

You need someone to be turning up to the CEO's or the owner's office, talking, working a relationship but also, I guess, having a handle on the regulations as well. Every year they're doing a review of their food standards code [and the] focus is to be on top of that, so that we can pre-empt any changes.

6.2.1.3.3. Capabilities to meet Chinese regulations

DO asserted that its high technical competency can meet China's new regulatory requirements. Nevertheless, it's the rate and uncertainty of changes to the regulations that are the major cause for concern:

We don't fear those [regulations] but it's just hard to get through the regulation. The regulation takes a while to change and changes in regulation create market uncertainties.

Highlighting the regulatory challenges faced by exporters, BT explained the multi-layered system for exporting to China, where different interpretations at each entry port compound the challenges. For this interviewee, the understanding of how this all functions is the key to overcoming regulatory hurdles:

In China we all know they interpret it [the regulations] slightly differently. It's hard to work out who is in control. Depends who you talk to and who's actually making the decisions.

Infant formula products manufactured for China must meet the stringent entry requirements, BT stated frankly. It is the understanding and compliance with the regulations that is the ultimate key for success in China:

There's no use manufacturing a product that doesn't meet the tight [Chinese] regulatory and port requirements. If you don't meet those, it's all over. I guess that is the key.

DR explained that aside from the functional aspects of its products, the firm tailors its products to meet the entry requirements of China. The ability to do this is a key factor for CO1:

We need to tailor products that best fit the customs import requirements, because there's [a] very, very strict control on a lot of the countries around products that can and can't be imported.

6.2.1.3.4. Country of origin branding

Comparing Australian and European conditions for dairy manufacturing, BT explained that Australia has geographical advantages due its natural endowment. The interviewee explained that Chinese consumers are willing to pay more for such differences:

They [European dairy producers] can produce the base powder for probably cheaper than what anyone in New Zealand or Australia can do, but its country of origin that sells ... We've got the nice green grass, the cows out there.

That's a real huge factor [which] the Chinese customer consumer is willing to pay the extra bit for.

DO described the leveraging of its Australian-made status as one of the success factors for the firm. A key selling point for CO1 is to push COO as a quality assurance marker:

I guess that's where our key for CO1 is, to leverage off Australian-made products. They're safe, they're secure. They come from a country that has high food standards, so that's where we'll always push our product, and use that marketing that 'Australian-made' to really push.

6.2.1.4. Analysis

CO1 provides a unique insight into the success factors from an infant formula ingredient exporter with a purely B2B approach to its corporate strategy. This case study illustrates the key success factors for a firm with a concentrated presence in the manufacturing aspect of the supply chain. The firm's competitive advantage is centred on its manufacturing capabilities and resources. As the firm only produces and exports dairy ingredients for blending infant formula, it has circumvented the CNCA approval process. Two meta-themes emerge from this case study: (1) the first focuses on how the firm's dynamic quality assurance capabilities play a key role in succeeding in China, and (2) the focus on the appeal of the firm to its partners, as well as the selection and maintenance for overall success. These are key success factors for the firm, with the details below.

6.2.1.4.2. Pre-entry success factors

Two pre-market entry success factors for the firm are described above. First is the firm's manufacturing capabilities as most critical to its success due to the firm's concentrated emphasis within the supply chain. Due to its focus on its business model of ingredient manufacturing, this is the basis of its competitive advantage. These manufacturing resources and capabilities produce high-quality, differentiated products. In addition, the manufacturing capabilities also have a dynamic component, with the ability to adjust and tailor products to extract greater value. This is a unique capability and provides it heterogeneity within the industry. Such capability has been a significant success factor for the firm.

The dynamic capabilities in the firm's manufacturing base are another source of value creation. These capabilities, as shown above, are able to increase the value of the product in China. CO1 is able to employ flexibility in production to not only tailor bespoke products to the firm's partners but also when general market demand is high. The ability to be highly receptive to the customer/market needs again shows the firm's inimitable standing within the Australian industry. Offering unique products against those of its rivals allows for differentiation amongst competitors, attractiveness to customers and is one of its key success factors in China.

The second success factor for the firm has been its product traceability capabilities. While the firm is exempt from the CNCA requirements due to its products being ingredients, its partners are still required to have traceability capabilities. CO1 provides these partners the ability to leverage their internal system. Furthermore, the advanced manufacturing capabilities mentioned above provide its partners with significant quality assurance capabilities that can be extended along the whole supply chain. This ability allows the partners to greatly increase their own quality assurance credentials and is another aspect of the firm's success in China.

6.2.1.4.3. Post-entry success factors

CO1 has four post-market entry success factors. The first factor for the organisation is the selection of partners in China. This is a very significant aspect, as the firm is significantly reliant on its partners to convert its ingredients into offerings which are sold on to Chinese consumers. The firm's appeal to prospective partners is high, thanks to its advanced manufacturing and domestic traceability capabilities. Furthermore, the firm's selection criterion for a partner is based on their need for bespoke products and their willingness to pay a premium for the firm's high-value products as mentioned above. Another advantage to come from partner selection is the market intelligence gained. Cultural norms in China persist and information is passed through traditional information channels. The overall importance for the firm is the selection of partners in China who are of strategic fit. This has been the key post-market entry success factor for the firm in China.

Overlapping the partner selection factor above, the second key success factor for the firm has been its relationship management in China due to their high reliance on partners for downstream supply-chain components such as branding and distribution. To achieve these capabilities has meant significant commitment to establishing a presence in China and allocating senior staff to the region, which in turn has allowed for the affective management of key relationships. With high levels of relational capital a key factor for success, relationship management also fulfils the cultural aspects of trust-building and communication, as well as being a source of market intelligence. With the dynamism of China's regulatory environment, relationship-building becomes a key capability to gaining vital market information in advance.

The third success factor is having the capabilities to meet the Chinese regulations. The first of these capabilities is the quality and safety aspects that the firm must meet as a part of the pre-market capabilities as discussed above. Additionally relationship management on top allows for market intelligence to pre-empt regulatory changes. Nonetheless, the major factor for the firm is its business model of ingredient exporting as a way of mitigating regulatory requirements. As its ingredients products have greater flexibility than finished products, this allows it to meet the stringent entry requirements of China. The firm is able meet the import customs requirements in the face of a dynamic

regulatory environment much more easily than the other case study firms, and has provided significant advantages.

The firm's fourth success factor is COO, which plays a significant role. While the COO factor is enjoyed industry-wide, much of the phenomenon is tied to the Chinese consumers' perception of Australia being a clean, green country for agricultural production. As the firm is a producer of ingredients, its corporate brand and the quality assurances aspects of its Australian production further increase the value of its product offerings. Moreover, the firm's partners transfer the COO advantages to their own products due to their ingredients having the same advantages. Such advantages are seen within the realm of ingredient branding, where the quality assurance aspects can be transferred to the end product. This factor is vital for the firm and a key success factor.



Figure 6.2. The CO1's perspective on its export performance to China

CO1 provides a unique insight into the key success factors for a firm, with a strategic orientation on the production and marketing of infant formula ingredients only. As can be seen in Figure 6.2 above, two meta-themes emerge from this case study: (1) the first focuses on how the firm's dynamic quality assurance capabilities play a key role in succeeding in China, and (2) the focus on the appeal of the firm to its partners, as well as the selection and maintenance for overall success. The two pre-market entry success factors and four post-market entry success factors make up the key success factors for CO1.

6.2.2. Case organisation two: An infant formula private label manufacturer and exporter

6.2.2.2. Introduction

Case Study Two (CO2) is a large Australian Stock Exchange-listed company that has two main subsidiaries. Both subsidiaries began their corporate lives as cooperatives over a hundred years ago. The first subsidiary is an original equipment manufacturer (OEM) producing private label goods for third parties, including infant formula, for which two interviewees (HR and DC) participated. These two interviewees were the only direct senior employees engaged in the China market at the corporate level. The third interviewee is from the group's general dairy and food business (TH). This subsidiary has a greater exposure to the supply chain components in China, which includes internalised product marketing. Inclusion of TH provided triangulation to the OEM interviews, as HR and DC were the only

relevant participants available.⁶¹ Furthermore, TH had significant experience of exporting relevant dairy products to China. This inclusion added greater insight to the findings. Figure 6.3 shows the internalised aspects of the supply chain for the overall company.

The group was formed when the strategic acquisition of the OEM business took place in 2011, at the time making CO2 the largest listed dairy company in Australia. This provided CO2 with a highly reputable dairy business with an expanded product range, extensive in-house resources and capabilities pooled along an expanded supply chain. Hence the merger yielded both economies of scale and scope. Post 2013, CO2 built five new dairy plants around Victoria, which included a nutritionals and canning plant to increase the competitive advantage of the firm. An indication of the size of CO2 can be seen by the firm's total revenue for 2017 of \$1.2 billion. CO2 is an accredited CNCA infant formula exporter who gained its approval during the second round of the audits.

CO2 has a strong focus on international markets through value-added products, and a combined total export marketing experience of 80 years with over 70% of total production sent offshore to over 50 countries in Europe, Asia, Middle East and the Pacific regions. With regards to Asian export markets, the firm has over 20 years' experience. Nevertheless, in China, the OEM subsidiary has been most successful, mainly in part because of the enormous demand for infant formula. Furthermore, this subsidiary has four marketing partners for which it produces and cans infant formula. The OEM subsidiary's marketing partners include two of Australia largest branded infant formulas in China and a world leading multinational. Exposure to these partners has given the firm unique experience and insight into the success factors required.

The findings from CO2 show three meta-themes to have emerged: (1) the operational capabilities to ensure the firm's quality assurance as pre-market entry success factors, (2) post-market entry success factors saw partner selection as the key requirement, and (3) with the inclusion of the general dairy subsidiary, the export market strategies of product adaption, branding and partner distribution strategy are also included. The findings below will detail these.

⁶¹ This is one of the issues with the unit of analysis being venture/product as discussed above. The inclusion of interviewee TH provides validity and rigour as explained in Chapter Four.

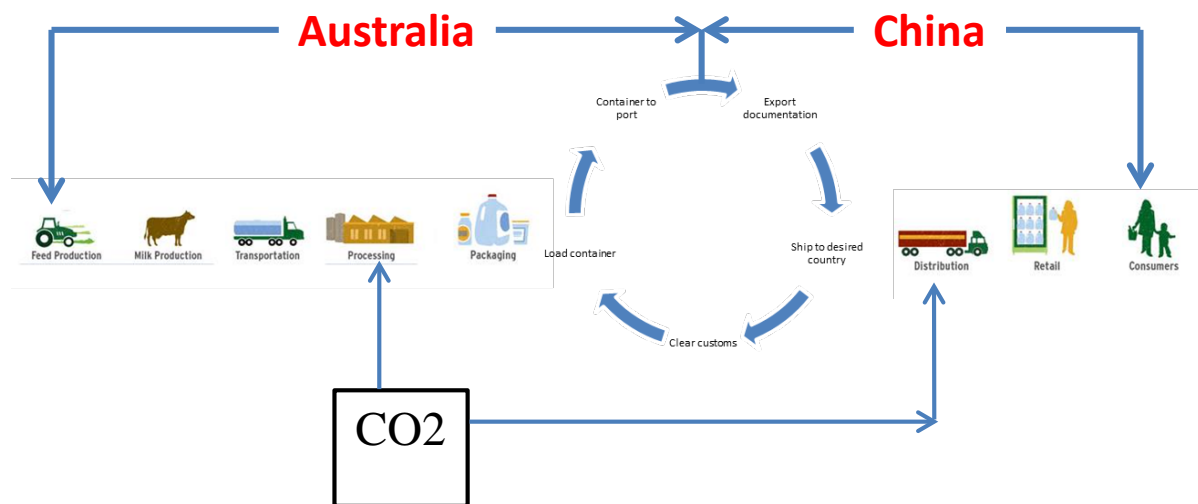


Figure 6.3. CO2 internal exposure to the Australia-China infant formula supply chain

6.2.2.3. Pre-market entry success factors

6.2.2.3.2. Production capabilities

HR explained that the firm's manufacturing capabilities have been upgraded to meet the demands of the Chinese market. As an OEM, the firm has had to maintain a cost advantage internally, while providing high-quality products and ancillary services to support their partners in China:

We've certainly had to evolve [our manufacturing capabilities] to maintain the supply of products to our partners and also manage the cost at our end [and] put a lot more controls back into our business, and [we] have developed the capability to service/semi-support the quality of our products and market where there is, for example, testing discrepancies and things like that.

DC stated that the firm's reputation for manufacturing dairy is a key advantage in China. This is due to the firm's long history, especially within the nutritionals business as seen by its noteworthy partners. Such factors allow the firm to have a greater standing against its industry rivals:

CO2 has been a dairy business for 107 years. How long have we been making nutritionals? We've been making nutritionals for 22 years. That's seems like an acceptable proposition for them [the Chinese] in terms of [the fact that] they've got the runs on the board in terms of [how] they know dairy and [have] been working for twenty years with some of the world's biggest brands. There's a bit of integrity, a bit of knowledge to the CO2 name from the nutritionals perspective.

6.2.2.3.3. Quality assurance capabilities

DC stressed the need for product quality and safety through technological upgrades for industry success. As manufacturing is the most important aspect of the supply chain, especially in nutritionals, such an

emphasis is vital for vulnerable infants, as the Melamine Scandal has shown. Hence a quality assurance approach to nutritionals through advanced technology is crucial for overall success:

Nutritionals technology is important. It's very hygienic, almost therapeutic goods type stuff... Technology is one of the critical components to accurately manufacture that. [Technological] innovation is just really quite high ... Because you're dealing with such an important customer [infants], one important consumer, you just can't afford to get anything wrong.

HR stated that the dynamism of the Chinese market has an inherent risk from an operational and reputational perspective. In addition to its operational capabilities, the firm is required to increase resourcing and competencies to address the quality assurance aspects demanded by Chinese authorities. The interviewee stated that to neglect such an approach would be detrimental:

[China is] certainly a much more volatile market to service and it's a higher cost market to service too. Specific to infant formula, with the new regulations in testing, it's a market where you, you need to be set up very, very well in your processes back in Australia, you have to be very, very good, otherwise you are exposed to a lot of risk and a lot of cost.

6.2.2.4. Post-market entry success factors

6.2.2.4.2. Regulatory requirements of product traceability

HR explained that although the firm's operational capabilities in Australia provided the foundation for passing the CNCA audit, the process was not so straightforward. The interviewee detailed the ambiguity of market entry requirements in China:

The [manufacturing] facility is of a very high standard, so yes the audit was thorough, and the information we provided was very detailed, but we were, and it was a, I guess to say it wasn't a linear process.

HR elaborates by explaining that for the firm to pass the audit, it came down to exhibiting closeness between itself and its partners, with a need for evidence supporting the firm's claims. The information was required to assess whether there was enough visibility of the product as it moved along the supply chain. CO2 effectively showed its close relationship with its partners and the visibility of the product through the supply chain. This was its success factor for passing the CNCA audit:

During the audit, we were required to demonstrate a very close relationship with the partners that we manufacture for, which we based on the four brands that we manufactured for. We were able to successfully demonstrate that close relationship [through] a variety of factors that surround contractually

how you operate, that's around traceability, it's around liability, and it's around history.

As mentioned above, HR explained their non-linear approach towards passing the CNCA audit. Multiple communication channels between Australian government authorities and brand partners were required to satisfy the CNCA auditors, providing the evidence required to show the closeness between the firm and its partners:

We worked both government channels, directly through to the Department of Agriculture and to the CNCA. We also managed communication with the CNCA through some of our partners. That two-pronged approach to facilitate communication and understand the requirements was effective.

6.2.2.4.3. Partner selection

Asked what the key success factor was for the firm in China, HR stated that it was the selection of the firm's marketing partners. The selection process and due diligence required was resource-intensive due to the partners being mainly responsible for the post-manufacturing functions along the supply chain:

[A key success factor is] the quality of your partner, [the] quality of their organisation you're selling to, and their values. Also spending time in China to try and evaluate the capabilities of the people that you're supplying, it's as simple as that.

The partner's values and ethics are major selection criteria, HR explains, and heavily influenced by its values and that of its partners. As a part of maintaining partner relations, a key success factor for the firm is to work collaboratively and in a manner that is in line with those values:

The partners that we choose, we will evaluate them on having similar, I guess, ethical values that we would have as an organisation ... We work collaboratively with them through issues, we understand. I guess we behave in a certain way that they understand and respect.

DC discussed how the firm leveraged their partner's contacts, especially when dealing with government officials who were important stakeholders in China. The interviewee discussed the cultural significance of *Guanxi*, a relationship capital building resource. Having this capability is vital for success in China and achieved through their partners:

Our partners will have been their [own government] contacts, the people that they know. You know the term *Guangxi*; if you don't have that you can't exist basically. That really is critical more so than here ... [If] you don't know

someone in the network [in Australia it] doesn't matter. You can still exist and you can still be successful. Clearly that's not the case in China.

6.2.2.4.4. Product adaption

TH explained that a critical success factor for the general dairy subsidiary was to understand that consumer demands in Australia and China are different. In order to achieve such success, the firm has had to develop the necessary operational capabilities in Australia to deliver the products required in China:

[Our success has come from] developing products that actually do suit the Chinese consumer and gearing our innovation around that and not just sending an Australian product to China expecting that it will be enjoyed by the consumers as we do.

DC described the organisation's focus as being squarely on the needs of the consumers. To the interviewee, being able to meet the changing demands of the Chinese market was an important factor to the firm's success:

I think the challenge is actually adaptability and flexibility. Are we meeting the needs of the consumers in China? That's probably the million-dollar question.

TH described how the firm's success in the general dairy market was achieved by taking advice from their Chinese PR agency. The advice was to adapt the products' packaging to be more conducive to Chinese consumer tastes. Being more customer-centric has been an important factor in this subsidiary's success:

What we thought as appealing to a Chinese consumer in our initial pack designs [wasn't] and when we actually dealt with a Chinese agency, it basically flipped it right on its head. Our Chinese agency was able to describe to us what would be important to the Chinese consumer. We took their advice on how we should promote and how we should launch and what the message should be ... [It] is quite ugly from my point of view, but the Chinese like it.

6.2.2.4.5. Branding strategy

TH stated that COO marketing is a crucial aspect for Australian exporters in China, as firms can position their brands at the premium end of the market. The perception amongst Chinese consumers is that the COO aspect provides quality assurance. This is a success factor for the firm:

The Australian product is actually probably viewed as the premium product... Obviously, the Chinese consumer buys on safety and will buy an Australian

product based upon their perception of our clean, green environment and our impeccable quality standards.

HR explained how the R&D attributes in the form of developmental qualities to infants provide a greater source of sustained competitive advantage than the product safety characteristics going forward. The interviewee predicted that as product safety concerns decrease amongst Chinese consumers, the R&D features will outweigh the COO aspects for marketers:

In categories like nutritionals, I'd say that that [the] clean, green Australian image will become less important than the scientific benefits in terms of child development the product delivers through, let's say R&D ... Mum was buying a more intelligent child, and the hygiene factor of source of supply becomes less important. Overtime that will drop down the hierarchy of needs as opposed to [the] nutritional benefit of her child.

6.2.2.4.6. Distribution partner selection

TH was unequivocal that product distribution was critical to their success in China. Finding the right distributor has been their key:

I still think China is the distribution game... Just getting the distribution right has been a key part to their growth in both food service and retail.

TH provided the specific example of switching from a Tier One city distributor to a distributor who had greater geographical reach into the second tier cities. The change has been a success for the firm, which has seen an increase in its sales volumes:

We had a retail distributor that was Shanghai based and didn't really have a view beyond Shanghai. They grew to a certain extent. [But] because CO2 only was a small part of their business, we didn't have a great deal of leverage ... We changed distributor [to one] that had a far greater reach into the second tier cities, and our volume has increased significantly. That was just pointing to the right distributor.

TH explains that its new distribution partner is a municipal government entity, and that its distribution success has come down to the new distributor's integrated supply chain, its institutional support and its ability to jointly distribute the product to different geographical regions:

Our distributor is, actually, a supermarket. We have a partnership with the municipality of Chongqing. They own the New Century Supermarket in Chongqing ... We're going to market in Chongqing and focusing on the

southwest through them. Then, they've set up a separate distribution company in Shanghai that will do the distribution on the east coast.

Lastly, TH explained the dependence on the distributor as a key factor for overcoming some of the regulatory challenges. The right distributor, the interviewee explained, has significant relations with the regulators and as such can help overcome any market entry hurdles:

Just depending on where that food service distributor is located and what relationship they have with their local CIQ will then dictate our labelling for other market ... We really rely on our distributors to pull us through.

6.2.2.5. *Analysis*

CO2 provides a dual insight into the key success factors for exporting infant formula to China. From the overall findings above, two pre-market and six post-market entry success factors for CO2 were identified. These are shown in Figure 6.4 below. Overall, the three meta-themes to have emerged: (1) the operational capabilities to ensure the firm's quality assurance as pre-market entry success factors, (2) post-market entry success factors saw partner selection as the key requirement, and (3) with the inclusion of the general dairy subsidiary, the export market strategies of product adaption, branding and partner distribution strategy are also included. These are key success factors for CO2, as will be detailed below.

6.2.2.5.2. *Pre-market entry success factors*

Two pre-market success factors were identified from the interviews for CO2. The first was the firm's operational capabilities. Emphasis on manufacturing capabilities as a key factor for success was due mainly to the strategic nature of the OEM subsidiary. With the requirement for its partners to undertake most of the marketing functions, its operational capabilities must be well resourced. Furthermore, it is the manufacturing aspect where the firm creates its value. This has meant that the OEM subsidiary has had to maintain both a cost leadership position internally while maintaining a high-quality product output. In addition, ancillary services such as product testing (as required by Chinese authorities) were also provided as a part of its value proposition. Amongst its operational capabilities, the firm's long history provides reputational advantages, both of which are key success factors from a Chinese perspective.

The second pre-market entry success factor was the firm's quality assurance capabilities. While the above discusses production capabilities, the Chinese regulators require a strict adherence to quality and safety of production. The findings suggest that the firm has invested in innovative technology to ensure product safety standards are met. A strict emphasis on quality assurance through resource and capability upgrades is vital, and product safety has a significant impact on the firm's reputation and its partners. In addition, the findings also suggested that the dynamism of the Chinese regulatory regime is a key

consideration, due to the impost it has on the production cost of goods manufacturer. The impact is great as the OEM subsidiary seeks a cost leadership position. Hence the high technological competencies have meant that regulatory requirements around product testing are sufficiently implemented at the operational level. Furthermore, the significance of the firm's dynamic capabilities are a key success factor upon which to build its success.

6.2.2.5.3. Post-market entry success factors

Six post-market entry success factors were identified from the findings. The first factor was meeting the regulatory requirements for product traceability. While the firm has significant operational and quality assurance capabilities, these were not enough to meet the CNCA requirements. Little internalisation of the supply chain meant that transparency was inadequate from an internal perspective. The key requirement meant that the firm had to demonstrate it was able to track the product through the supply chain. In the absence of a fully integrated supply chain, CO2 demonstrated closeness to its marketing partners to ensure that supply chain transparency requirements were met. This requirement overlaps with the second success, partner selection below.

The second success factor was partner selection in China. Partner selection overlaps both market entry requirements and market competition requirements. While TH outlined its importance from a general dairy export perspective, HR and DC state that partner selection is a crucial aspect of its subsidiary's success. As shown above, these partners were essential for overcoming regulatory requirements, and from an export marketing perspective, provided the linkages in the value chain post-operations. Due diligence in partner selection is therefore vital for the firm. Nevertheless, although the partners in China can be a valuable resource through their networks of contacts and relationships, they can also be a liability for the firm, and therefore the factor is not only strategic alignment between partners but also transference of values and governance structures to ensure risk mitigation. This is a key success factor to both subsidiaries.

The third success factor, courtesy of TH, was a focus on a greater product adaption, and both interviewees HR and DC remarked how essential it has been for the firm to adapt their products, designs and operations to suit the Chinese market. With operational adaptation, as highlighted above, the need for adapting the firm's export marketing practices to suit the Chinese market is also a requirement for success. The general dairy business of the firm succeeded most from this approach, due to it having branded products in the Chinese market which were previously labelled according to domestic tastes. Advice from external consultants to adapt its packaging to Chinese tastes has seen increased sales, and also increased the firm's market knowledge. The ability to adapt the product to the Chinese market is seen as a key success factor by TH.

The fourth success factor was the firm's branding strategy. The findings suggested that COO branding plays a significant role with respect to Australia's image of being a source of clean, safe food.

Nonetheless, for the OEM subsidiary the R&D aspects for nutritional products will play a more prominent role once the safety concerns of the Chinese consumers starts to reduce. HR was able to make this claim due to its multinational partner having one of the largest market shares in China, courtesy of its R&D capabilities. The findings suggest that a competitive advantage for the industry in Australia occurs when nutritional products are branded using the COO label. Nonetheless, sustained competitive advantage could be achieved by a focus on the product's developmental components, through R&D. The combination of these two value-added product components becomes a greater source of competitive advantage.

The fifth factor was the distribution partner strategy. This function within CO2 internally is the sole domain of the general dairy subsidiary. Nevertheless, distribution is a generic function that is essential from an export marketing perspective, hence the importance of the contribution by TH. The interviewee commented extensively on their distribution partner as a determinant of their success. The findings indicate that the selection of a distributor with a similar strategic vision, along with the necessary resources and capabilities, is vital for success. Such attributes from the distributor allow the firm to penetrate second-tier cities, where higher sales growth as well as greater geographical expansion is more likely. Finally, a competent distributor has the ability to overcome some of the regulatory hurdles faced in the market entry stage of exporting infant formula into China. With institutional requirements a major concern, the ability of the distributor to assist with all the above becomes a key resource of considerable value to the firm. This finding also serves as a future success factor for the OEM subsidiary if it decides to forward integrate.

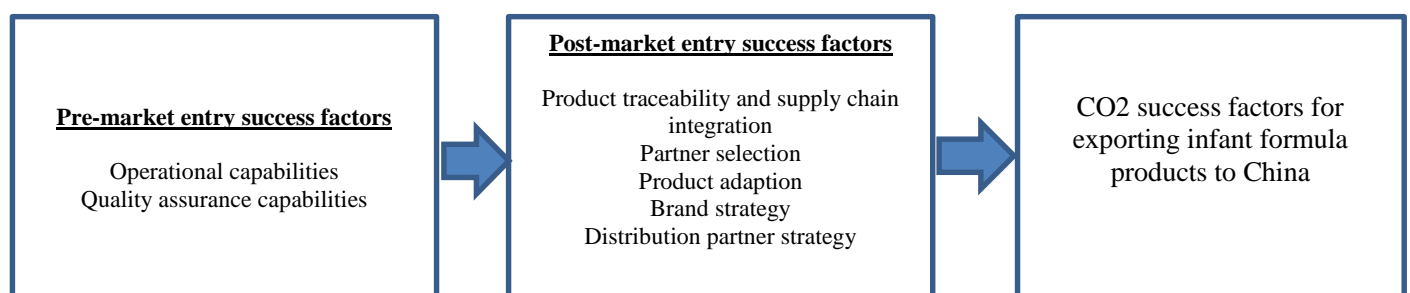


Figure 6.4. The CO2's perspective on its export performance to China

CO2 provides a unique, dual perspective into the key success factors for exporting Australian infant formula to China. With the OEM subsidiary having an acute internal focus in the supply chain, its general dairy subsidiary interviewee provided great insight into key success factors along much of the supply chain. Figure 6.4 above shows the combined success factors for CO2 as a whole. Overall, the three meta-themes to have emerged: (1) the operational capabilities to ensure the firm's quality assurance as pre-market entry success factors, (2) post-market entry success factors saw partner

selection as the key requirement, and (3) with the inclusion of the general dairy subsidiary, the export market strategies of product adaption, branding and partner distribution strategy are also included. The two pre-market entry success factors and six post-market entry success factors make up the key success factors for CO2.

6.2.3. Case Organisation Three: An infant formula manufacturer, exporter and marketer

6.2.3.2. Introduction

Case Study Three (CO3) is a large dairy company. The firm was founded in 1949 in rural Victoria Australia. The firm has since become the largest and fully internally integrated dairy food company in Australia. CO3 has a part-cooperative/listed corporate structure. The firm's turnover from 1970 has increased from \$30 million to \$181 million in 1979, and to \$2.5 billion in 2017, from which 51% of revenue was derived from international sales. Four interviews were attained for CO3, although, only one (MB) was from within the firm due to multiple requests being rejected. This case study was closed by interviewing three financial markets analysts, A1, A2 and A3, detailed in Chapter Four above. These interviews meet the necessary requirements for rigour and validity.

CO3 has six units domestically across the supply chain, with retail brands, a food services business and on-farm products and services. Furthermore, CO3 acts as an OEM with significant joint ventures between itself and large multinational firms for supply of dairy products both domestically and internationally. The overall corporate strategy for CO3 is twofold: (1) the production efficiency of its operating capacity, which is an imperative for competing in the international market; (2) continuous innovation for long-term profitability and growth. The company's vision and strategy for 2017 included a focus on Asia due to domestic supply deficiencies. CO3's ultimate goal is to move higher in the value chain to increase shareholder returns.

CO3 has an export focus geared mainly towards Asia but also including Latin America and the Middle East. The Asian market alone accounts for 77% of its export volume. CO3's only international manufacturing facility is an infant formula canning plant located in China, established in 2007 and also functioning as a distribution hub. The canning facility uses Australian dairy ingredients to produce infant formula under its in-house brand, which is marketed throughout China. CO3 was also the first Australian firm to pass the CNCA audit. Figure 6.5 below shows the level of internal integration of the supply chain from Australia to China.

The findings from CO3 provide an expanded insight into success factors due to its longer, internalised supply chain. The findings will show six themes were uncovered with two meta-themes: (1) the quality assurance capabilities for market entry, and (2) the importance of the firm's export market strategy for market competition. The findings below will detail these.

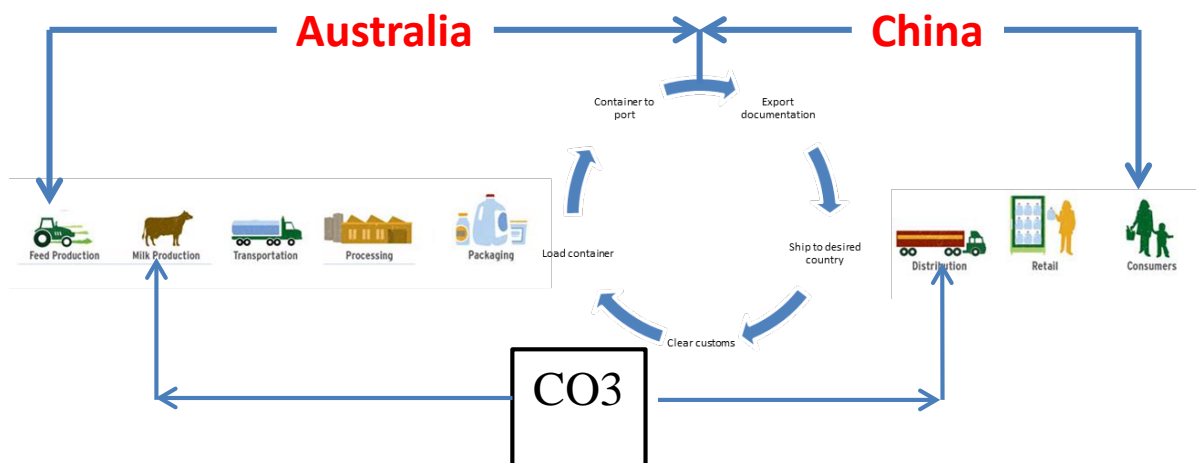


Figure 6.5. The CO3 internal exposure to the Australia-China infant formula supply chain

6.2.3.3. Pre-market entry success factors

6.2.3.3.2. Quality assurance

MB identified the firm's history in quality production across the business as the key aspect of firm's success:

One [advantage of the firm] is we have a strong business base with a track record of good quality products. That's just across the whole of our range, so quality is a key thing.

MB described the advantage of the farmer-owned aspect of the firm's co-operative structure and its implications to product safety. As Australia's largest dairy producer, an internally integrated supply chain domestically makes quality control easier. In addition, it provides the firm a significant competitive advantage against its rivals:

What we've got, no other company in Australia's got ... we own the milk. We own the farmers. We can afford to stay quality. We have control of the supply chain from the cow to the consumer more or less so that is a massive strength.

A1 indicated the organisation's location, size, and scope, and described its corporate structure that delivers the firm its industry advantage when exporting to China:

I think being a big cooperative and having the supply and based in Australia—that gives them a natural advantage in terms of scale of the business.

6.2.3.4. *Post market entry success factors*

6.2.3.4.2. Product traceability capabilities

A2 explained the initiative by the Chinese authorities to increase the supply chain visibility of infant formula products in China. This is an imperative by Chinese authorities in their attempts to regulate the industry:

The thing they're [the Chinese authorities are] trying to do is clearly shorten supply chains when servicing that infant formula market because they want greater visibility over who's supplying what and where it's being packed and so forth.

A3 explained that the Australian infant formula industry has superior technical capabilities over the Chinese industry. While transferring cross-border traceability requirements could prove challenging for most firms, CO3 has an industry advantage, with its manufacturing plant in China providing increased supply chain visibility:

I think you can consider Australia one of the highest technical capacity manufacturers in the world. I think integrating into the Chinese system, whatever system they do decide to go with in the end, might be an issue because obviously a lot of Australian manufacturers will have an existing infrastructure and trying to find some kind of plug-in to the Chinese system is difficult.

A2 discussed the difficulties in China around food safety. The interviewee explained that firms who are able to address the concerns for food safety in China will go a long way to prospering:

You hear stories of counterfeiting brands and stuff like that. Somehow if you can control that and not have a food safety scare, you're going to go [a long] way to succeed.

As mentioned above, CO3's fully internally integrated supply chain allowed it to be the first firm in Australia to pass the CNCA audit. MB described how visibility along the supply chain was a key requirement of the Chinese authorities, which CO3 fulfils better than any firm in Australia. For the interviewee, the firm has a unique resource and capability:

If there's a problem, we could trace it right back to the factory and to a vat. We know exactly whose milk would have, which farmer's milk would have gone in that vat so we got full visibility, flexibility. Traceability is big requirement of the Chinese, [its] the fact, recently that we are one of two companies in Australia to get a [CNCA infant formula exporters'] licence.

6.2.3.4.3. Host country human resources

MB articulated the view that staff selection in China was a key factor for the firm's performance. Human resource management was discussed as vital for ensuring that CO3 maintains its quality assurance credentials:

You need people with the calibre and the expertise to run a company that is principally focused on infant formula and that's an absolute must.

MB further elaborated by stressing the importance of using local staff. In China the competency of local staff is very high, and having the right human resources is an important success factor:

There's one expat in the company in the country who has got a lot of experience in China. All of the senior management are locals, incredible talent pool. We've got some very, very high calibre people in the company so the talent pool in tier one cities for business is just massive, incredible ... I think our aim would be ...to use local people. You just got to use local people as much as you can; employing the right people is obviously an important success factor.

6.2.3.4.4. Partner selection

In response to the firm's proposed internalisation of distribution in China, A3 was not so sure. The interviewee suggested that selecting a partner to perform this function would be a more strategic approach in China. Although the firm has the necessary internal resources and capabilities, the interviewee carefully implied that Chinese authorities might use soft forms of governance to force CO3 to choose a partner. Furthermore, the analyst alluded to the advantage Chinese partners have with their ability to navigate through some of the ambiguities of Chinese commercial and institutional practices:

There's a fair bit of regulations in China that required you to have local partners to keep certain work. It's a bit of a concern that you can go out [and internalise key functions] if you don't [have a partner doing] that, but I would suggest that [by having a partner] there's also a risk mitigation there, as well.

While partner selection is vital for success in China, the selection process itself is just as crucial. MB alludes to the attempt by the Chinese government to increase consumption of domestically made infant formula. The interviewee stated that transgressions by partners would have a negative reputational impact for international firms such as CO3. The overall suggestion is the need for strict adherence to the rules in China:

The Chinese government wants less international players, more local players, and they will prosecute any foreign entities that don't comply with the rules very strongly. There's no room for complacency.

Although cultural traditions are a part of Chinese commercial practices, MB stated the need for strict anti-corruption compliance. Transferring home countries' best practices and selecting like-minded partners is the only way to mitigate the risk in China:

All of our wholesalers are screened. They all have to sign up to our anti-corruption policy so we're very careful of who we select as distributors and wholesalers ... At this stage it hasn't given us any setbacks.

6.2.3.4.5. Brand strategy

MB discussed the brand positioning of the firm's infant formula in China. While being positioned within the high-end market, the firm seeks to compete on its safety attributes rather than on R&D. With a focus on product safety, multiple brands catering to multiple segments are all backed by the firm's quality assurance credentials:

We are in the high end. We're not in Tier One where some of the big nutritional players like the Abbotts, the Mead Johnsons and the Nestlés of the world sort of developed some really high end infant formula that could sort of turn out super children. We're playing in the tier lower which is still the high end. We got some for the lower, for the third tier as well, which is our locally produced stuff but with the CO3 Australia quality stamp on it.

As MB indicated, further to its technical advantages for quality assurance, the firm's brand is tied to the COO aspect as a mark of differentiation against other nations competing in China:

We try and leverage the fact that Australia's got a clean, green image. You [have] got to appeal to these Chinese consumers. Our branding is about promoting [Australia]. You see pictures like a cow eating grass ... It's about building the reputation and the image ... that we're clean, green, safe, high quality. I think for the next ten to fifteen years, it will be a big part of what Chinese consumers will want.

Furthermore, MB asserted that the advantage for the firm in its branding strategy was the corporate brand supported by the COO brand, stating:

It's (the firm's name) with the country of origin.

The branding strategy above was supported by all interviewees, as discussed by A2 in his summation of CO3's union of corporate and COO brand:

It [the COO aspect] underpins their own corporate brand. The country of origin branding is important, absolutely, as it [is] that sort of framework with which you build your own brand.

6.2.3.4.6. Geographical distribution strategy

MB discusses geographical distribution in China. The findings suggest that the firm selects distributors to target the high-end segment of consumers in the Tier One cities and growth opportunities in the Tier Two cities:

We now we have distribution network[s] through distributors from most of the Tier One and some of the Tier Two cities in China.

A2 discussed the penetration of towns outside the Tier One cities. Nevertheless, selecting the right cities needs to be complemented by finding the right distributor who can navigate through the challenges posed. Achieving this would be advantageous to CO3 and a success factor in China:

A lot of the consumption growth in the tier one cities is starting to slow, there's still latent demand growth outside of those tier one cities but they're obviously harder markets to get to, literally more fragmented distribution. So having the right distribution or having the right partner to get product to those growth regions within China is going to be a bit important.

6.2.3.5. Analysis

CO3 provides a unique insight into the key success factors for exporting infant formula to China from Australia's largest and fully internally integrated dairy company. The findings above showed six themes were uncovered with two meta-themes: (1) the quality assurance capabilities for market entry, and (2) the importance of the firm's export market strategy for market competition. While the overall need for quality assurance is emphasised, a greater focus on export marketing elements as key success factors is highlighted. Below provides a descriptive analysis of the findings.

6.2.3.5.2. Pre-market entry success factors

The one pre-market success factor for CO3 was its quality assurance capabilities. The company's corporate structure as part co-operative has meant that an internalised supply chain exists domestically. This begins with a guarantee of milk supply, as the farmers are also the owners of the firm. This has given rise to a competitive advantage over its domestic rivals. With milk supply the most important and vulnerable aspect of the supply chain, this integration means there is full visibility of the product domestically, and with such capabilities, the firm can easily retrace any contamination to its source. The firm emphasises the quality assurance aspect of its production, as will be seen throughout the findings.

Lastly, the firm's size is also a key factor in its success against industry rivals. Due to its structure, the organisation's scope allows for information to flow easily between supply chain nodes, with the advantage being an increase in the value of its resources and capabilities. In addition, its long history in dairy with quality manufacturing and exporting enhances the firm's quality assurance credentials. As the domestic industry leader, the ability to transfer this reputation to China has given the firm a significant advantage.

6.2.3.5.3. Post-market success factors

Five post-market entry success factors were identified from the findings. The first was meeting product traceability requirements in China. This success factor was due to the firm's quality assurance capabilities in its pre-market entry success factor being extended to China. CO3's China plant provided for this increased product traceability as it delivers a two-tier supply chain for greater transparency. All these advantages were shown when CO3 was the first organisation in Australia to receive CNCA approval. All comparative firms were rejected by the same authorities, a fact which displays CO3's competitive advantage in Australia. The capabilities above further increase the competency of the firm's quality assurance and demonstrate CO3's differentiation amongst its domestic rivals. Such advantages have become the firm's key success factor and a valuable resource for its success in China.

The second success factor was the firm's host country human resources. The increased footprint in China means that supply chain components such as canning, marketing and distribution require greater internal focus, and hence human resources and selection of local staff is an imperative to ensuring the success of the firm's venture in China. Aside from operational aspects, as the firm increases market commitment, increased local market knowledge is required, and most effectively achieved through its HR resources. Furthermore, the host country's human resources provide a necessary reduction in psychic distance through costs savings from expatriates. With CO3's manufacturing plant in China, host country human resources are a key success for the firm in China.

The third success factor was the selection of strategic partners in China. This success factor has two aspects. Firstly, the rationale for partner selection was in response to commentary by the ex-CEO, suggesting internalising distribution in China. The findings suggested that having a domestic partner would be much more advantageous as it is an implicit requirement from the authorities in China. The careful implication above suggests that, in some sort of unwritten requirement, Chinese authorities expect international exporters to have a Chinese partner.

Secondly, finding a partner of strategic fit is vital for commercial success. With the findings suggesting that there is institutional favouritism for Chinese domestic producers in addition to the above, partner selection becomes crucial and firms must therefore carefully select their partners. The risk of a partner's indiscretions could have a negative impact on the firm's brand in China and so strict governance

requirements should be applied to the due diligence selection process. Ability to select partners that are of ethical and strategic fit in China becomes a success factor for the firm.

CO3's brand strategy was its fourth success factor. While there is much discussion of the firm's quality assurance attributes, CO3 sought to leverage its quality advantages and position its brand in the high-end category. This was done with multiple brands in multiple geographical regions. While the major multinationals compete on the R&D aspects of their infant formula, CO3 competes through its quality assurance capabilities, in line with consumer demands for safe products. Moreover, as the COO brand is popular in China due to perceptions of quality and safety, CO3 strategically underpins its corporate brand around this aspect, and this becomes the success factor for the firm's branding strategy. The corporate brand, with its own quality assurance capabilities, is reinforced by the COO brand and is perceived by Chinese consumers as a marker of quality and safety. The overlaying of the two brandings provides the consumer greater quality assurance, especially when product safety is still a key issue in China. The ability to do this has been a key success factor.

Geographical distribution was the fifth success factor for the firm. CO3 pursues a strategy of penetrating both Tier One and Tier Two cities in China, a geographical strategy which is in line with its multiple brand strategy, as discussed above. Tier One cities are the major capitals along China's east coast. They are of higher value but conversely highly competitive. Tier Two cities, on the other hand, are geographically spread, lower in value and comparatively underdeveloped and less competitive. Nonetheless they have higher growth rates. While Tier Two cities are difficult to penetrate, CO3 has strategically used its manufacturing facility located in a Tier Two city as a distribution hub. Combining Tier One and Two cities means that the firm is able to compete in the stable Tier One markets and seek growth in the challenging Tier Two cities. This geographical distribution strategy is a key success factor for CO3 in China



Figure 6.6. The CO3's perspective on its export performance to China

CO3 provides a unique perspective into the key success factors for exporting Australian infant formula to China from Australia's largest fully internally integrated dairy company. The firm's size, corporate structure and strategic investment in China provide it with the basis of its success. Two meta-themes

have emerged from the findings, as seen in Figure 6.6 above and are: (1) the quality assurance capabilities for market entry, and (2) the importance of the firm's export market strategy for market competition. The one pre-market entry success factor and five post-market entry success factors make up the key success factors for CO3.

6.2.4. Case Organisation Four: An infant formula manufacturer, exporter and marketer

6.2.4.2. Introduction

CO4 was established in 2012 and is classified as a small to medium-sized business (SME) with approximately 50 employees and is the smallest and most newly established firm amongst the organisational case studies. The firm is located in the outer suburbs of Melbourne Victoria, Australia, and packages dairy products, including infant formula for the domestic and Chinese markets. Domestic sales are only to complement the Chinese sales and are used as a marketing tool. They take place via independent retailers and *Daigou* traders. Overall CO4 is made of subsidiaries and joint ventures that span the supply chain, as discussed in detail below.

CO4 is unique in that it is operated and managed mainly by diasporic Chinese. The CEO and co-founder, also a diasporic Chinese, arrived in Australia over twenty years ago with a background in the pharmaceutical industry. Two interviews were carried out with the CEO, but interviews with other company officers were unable to be obtained.⁶² Another unique feature is that the firm was the second in Australia to be granted a CNCA infant formula export licence, a very telling fact considering that many notable firms in Australia of much larger size and scope were rejected.

Operationally, CO4 has the largest internal exposure to the supply chain in China, as seen in Figure 6.7 below. This supply chain begins with a blending and canning plant in Australia where milk powder and nutritional powders, mainly infant formula, are blended and packed. The plant produces internally branded infant formula and also acts as an OEM for independent brands. At present, the corporate strategy of the firm is to exploit the rising demand for Australian infant formula products in China. In addition to the manufacturing plant, CO4 has a marketing and export agency office located in suburban Melbourne. These operations in Australia are complemented by its subsidiary businesses in China, which include an import agency in Hebei, a marketing office in Shanghai, a research and development laboratory and several retail outlets across China through which it sells its many products.

CO4's inclusion in this research was due to it meeting the requirements of being an Australian domiciled exporter of infant formula. The advantage of including CO4 in the overall thesis is due to the firm having the most Chinese market orientation amongst the other organisations, making its findings all the more important as success factors. Hence the findings as to the success factors have a high degree of relevance. The findings will show six themes were uncovered with two meta-themes: (1) an emphasis

⁶² This is further explained in the limitations sections in the thesis.

on quality assurance through its production facilities and integrated supply chain, and (2) the importance of the firm's export market strategy for market competition. The findings below will detail these.

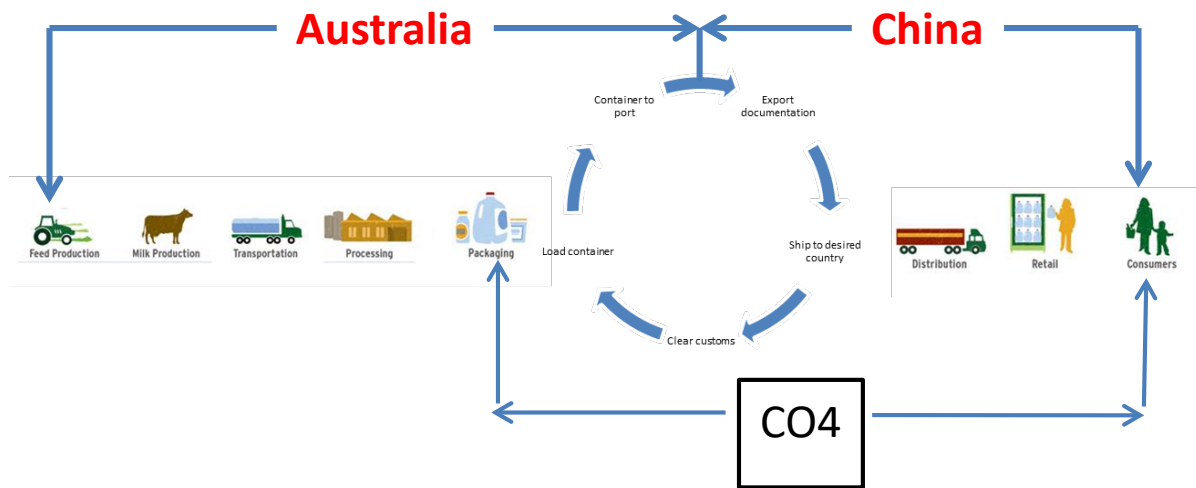


Figure 6.7. The CO4's internal exposure to the Australia-China infant formula supply chain

6.2.4.3. Pre-market entry success factors

6.2.4.3.2. Quality assurance capabilities

The interviewee asserted the need for product safety above all other matters for the firm to succeed in China. Emphasis on financial metrics is irrelevant if product safety is compromised in the Chinese market:

The most important aspect for the firm is the product safety. It does not matter about the market share or return on investment but if there is some accident, safety accident in the market; for example, if some babies drink your milk powder and die that will cause a disaster for the organisation.

The interviewee discussed the technological and R&D aspects in ensuring that the firm's quality production is maintained. The firm has invested significant financial resources to ensure that it maintains the technological capabilities that are vital for its success:

[Our focus is] more about technology orientation as the goal is to produce high quality product. So far a lot of money has been spent on technology and R&D.

The interviewee described the rapid growth of the firm and the need to upgrade its quality assurance systems. With the firm being a SME, significant financial resources and systems planning are required to ensure that it maintains quality production standards:

We have an ERP (enterprise resource planning) system but realised that the original one was too small as the production capacity increased and the data processing (was not enough). At the moment we have installed a new one, a big one, the original one gone, money wasted \$100,000 gone. Now we are training the staff on the whole ERP system.

As the firm has matured and grown, the original discussion on the hardware required to meet its quality assurance requirements has changed. To maintain its high level of production competency, the firm has placed a greater emphasis on organisational aspects:

This moment it is about the establishment of the organisational systems, policies and also training and planning. The softer side of the organisation becomes more important.

6.2.4.3.3. Human resource management

The interviewee further propounded the product safety aspect. Sound HR practices are required in order for operational staff to meet product safety requirements. The interviewee explained that such operational issues could be detrimental to the whole firm:

The (product) safety is the first priority for the plant. This is the first priority [and doing so by] providing training to the employees. When some products are not up to scratch then that becomes a part of the cost to the [whole] factory. Any loss of the safety will become a loss for the factory.

In addition to staff training requirements to meet the quality obligations, the firm sees a need to recruit selectively and foster a culture of accountability and ownership. As the interviewee explained, the firm's emphasis is on instilling a work ethos that values product safety:

The idea is to have a CO4 culture. To cultivate a sense of ownership to all employees so that they consider this organisation as a big family ... When we recruit people, this becomes a part of the recruitment process. This is also becomes a part of the screening process. So when it's five o'clock and the production is on they still hold their job.

6.2.4.4. *Post-market entry success factors*

6.2.4.4.2. Supply chain integration

In order to control the quality of its product, the interviewee described how surety of product safety could not be met with the firm contracting out production to OEMs. With Chinese regulators placing greater accountability requirements on exporters, ensuring product safety was vital for CO4. In light of this, the firm had decided to integrate backwards into a canning facility, which has been a significant resource for the firm and a success factor for its exports to China:

Before, OEM and contractors produced our products to China. We couldn't control the quality or anything so that's why we were worried. Dairy products in China need traceability. If the products have something wrong it goes back to the factory. All the risk is on me ... so I set up the factory so that I own the whole (downstream) supply chain.

To increase the capabilities of the firm's traceability system, internal integration of the supply chain has provided full product visibility. Furthermore, the firm has also linked its ERP system with CO3, who is CO4's ingredient supplier and Australia's largest dairy company. This strategic partnership provides full supply chain visibility and a competitive advantage, since product traceability is a key requirement for entry into China:

Vertical integration [is] very important ... we now have an ERP system linked with CO3 along with a research team in China, [and a] marketing and import office, which allows us to meet the full traceability requirements of the Chinese government audit.

The interviewee discussed the firm's success in gaining CNCA accreditation to export to China. The interviewee categorically stated that it was the firm's capability in becoming vertically integrated and not their connections in China that gained them a licence. This provided the firm a first-mover advantage against its competitors:

Right now the Chinese government has just given two licenses: One is to CO3 and the other to CO4, because both companies have vertical integration, from milk to blending to export to import in China ... All was done on merit base and not through networking. It was because we were vertically integrated.

6.2.4.4.3. Capabilities for meeting regulatory requirements

The interviewee discussed ownership of a brand as a key success factor in passing the CNCA audit. The firm was in a unique position in the industry as it had an internally integrated downstream supply chain and could adequately address the concerns of Chinese authorities:

The [melamine] milk scandal in China has caused a lot of concern for the Chinese government. The Chinese government found out that there are too many OEMs in China so [for companies to pass the audit they] also need to have their own brand. That is a condition imposed for getting a license to export infant formula.

Regulators in China placed a great deal of emphasis on the firm's manufacturing practices as the foundation for ensuring product safety. By adopting pharmaceutical standards for production, Chinese regulators were assured of the firm's ability in meeting the Chinese regulations:

They [the audit team] believe that it is important to start from the factory [and looking to see] if they have GMP [good manufacturing practices], which is part of the pharmaceutical production standards.

While the factors discussed above outline the general requirements for passing the CNCA audit, three unique factors internally aid CO4. The first factor is CO4's selection of CO3 as its ingredient supplier. CO4 successfully leveraged CO3's integrated supply chain and its surety of milk supplies to provide the Chinese authorities with assurances as to its own security of supply. Selecting CO3 was a key factor for CO4 passing the audit:

The first [factor] is whether the plant has a long-term stable and controllable source of milk powder. We have CO3 who can provide long-term supply and also stable and controllable supply.

The second factor for the firm passing the CNCA audit was its serious commitment towards ensuring product quality and safety. Systems to assist CO4 in dealing with the high level of technological development in its manufacturing capabilities and R&D into formula composition were undertaken. To the Chinese authorities this displayed the firm's genuine intentions of becoming a reputable supplier of infant formula in China. Such resource commitment provided credibility to the auditors, as the interviewee stated:

[The] second factor is whether you have a systematic process of how to deal with dry milk powder technology, its production and also do you have your own R&D team to look at infant formula rather than take the formula from the outside and then just do it without knowing what's going on. You need to have your own team to look at what is going on.

The third factor was the firm's use of QR (quick response) codes to meet the consumer's desire for greater product visibility through the supply chain. CO4 linked its technology with the Chinese Anti-Counterfeiting Coalition, allowing consumers the ability to use the agency's resources to check the origin of the product. Through such a strategy, CO4 has again leveraged the reputation of the regulators to meet traceability requirements from a marketing and institutional perspective. This has provided CO4 a significant advantage in China:

The third one is whether you have a comprehensive traceability systems, so ... [if] you are talking about, for instance, the packaging here, there will be a

QR code. This QR code will allow consumers to scan the QR code and the QR code will be linked to the CACC (China Anti-Counterfeiting Coalition), and if the consumers have an issue, they can go to the CACC website to have a look at it.

While the new regulations for product traceability have come into force in China, the regulations are still not concrete, with speculation of further changes ahead. Nevertheless, the firm's internally integrated downstream supply chain allows for news on upcoming regulatory changes to be received in advance through its relationships in China. Not only does the integrated supply chain provide product traceability capabilities, it also acts as a market intelligence gatherer, thereby enhancing the firm's knowledge based resources:

At this moment the strategy is to keep communications with the Chinese government and also with the Chinese side [of the supply chain]. We have our own subsidiary for custom clearance [which is a source of market intelligence] ... The idea is to make swift changes on the information provided.

6.2.4.4.4. Product branding

The interviewee explained that Chinese consumers are not familiar with the specific ingredients in infant formula. To them, the major cue is the COO brand and the perceptions of product quality. Hence a positive COO image is a key success factor for exporters:

The [COO] marketing is extremely important ... The ordinary customers do not know the product quality in particular milk powder. How would you know that [pointing to a packet of milk powder]? Though it is labelled clearly they have no idea of the implications. This implies that the COO is more important.

The interviewee explained that although there is a positive perception to the brand Australia amongst Chinese consumers, the lack of any prominent Australian corporate dairy brands in Chinese is a disadvantage to the industry. For CO4's success in China, the key is to promote the firm's brand with the COO branding as well:

(From a Chinese consumer's perspective) Australia is regarded as a (dairy) commodity producer and there is no famous [corporate dairy] brand names. So now we are developing our own brand names for our products.

6.2.4.4.5. Geographical distribution strategy

Though CO4 has many retail stores in its supply chain, these stores do not provide the necessary throughput. The interviewee explained that the development of relationships with external distributors to increase geographical expansion was a goal for success:

Though we have our own retail outlets they are still not enough. The idea now is to develop agents for distribution as well as regional development of particular regions in China.

CO4 has successfully catered to each zone by providing an individual brand and formula to each of the three tiered regions. By catering to these regions, the firm seeks to capitalise on both the stable and the growing Chinese markets. Such a strategy is a key factor in the firm's success in China:

We have several brand names and this is because we have several distribution channels, as those distribution channels are from tier one, tier two cities, some are from the country side and the advantage of several brand names means that they will not be competing with each other. The idea is to use different formula for different brands for different markets.

A success factor for CO4 is having geographical coverage with a minimum number of distributors. The key is selecting the least amount of distributors who can achieve the firm's geographic target. Doing so while maintaining uniformity in such things as pricing is a success factor in China:

You know in China if you have many distributors everywhere it is no good. So you must make one an exclusive [client, in each city]. If I give it to many, say in Hunan etc. the price may be different. It will be difficult to control.

6.2.4.5. Analysis

CO4 provides a unique insight into the key success factors for exporting Australian infant formula to China. Compared to the other organisations in the sample, the firm's perceived liability of smallness and single export market focus was overcome by a high level of market orientation and intimate contextual market knowledge by senior management. As a consequence of these factors the firm was second in Australia to pass the CNCA audit. From the findings, six success factors were identified for CO4 with two meta-themes. The findings showed six themes were uncovered with two meta-themes: (1) an emphasis on quality assurance through its production facilities and integrated supply chain, and (2) the importance of the firm's export market strategy for market competition. Below provides a descriptive analysis of the findings.

6.2.4.5.2. Pre-market entry success factors

Two pre-market entry success factors were identified for CO4. The first was the quality assurance capabilities required for product safety. CO4 emphasised the need for the firm to maintain its production

capabilities to ensure product quality and safety above all other metrics. This emphasis is due to the Chinese consumer's needs stemming from CO4's high level of market intelligence. Achieving such competencies, the firm has expended significant financial resources to upgrade its facilities. This was a key requirement for CO4's ongoing success and has been mainly absorbed through technological upgrades to its production facilities and their systems. In addition, as the organisation has matured, quality assurance upgrades have moved from hardware issues towards the inclusion of planning, policies and human resource management. These factors are foundational for success in China as they provide the necessary product safety requirements.

The second pre-market entry success factor was the firm's human resource management (HRM). The HRM factor is important due to its moderating effect on product quality inside the firm. Furthermore, CO4's size, business model, market orientation and newness to the infant formula industry meant it was a more well-defined success factor for the firm. As referred to above, the HRM practices centred on maintaining quality assurance. The production stage of the supply chain has a significant impact on ensuring the products safety, mainly by fostering a corporate culture around product safety. Its significance begins from the delivery of the base ingredients to when the final product is packaged. The multitude of different stages in the production process has varying degrees of human involvement. Safety breaches at the production level can have significant financial effects on the firm. To minimise the risk, a thorough recruitment and training process is administered. Furthermore, the fostering of an organisational culture which emphasises the virtues of accountability and ownership has been applied as a way of reinforcing the firm's goal of maintaining product safety. Through these HRM practices, CO4 has minimised production-related safety breaches. The ability to execute these factors has been a key success factor for the firm.

6.2.4.5.3. Post-market entry success factors

Four post-entry success factors were identified from the findings. The first was the need for a fully integrated supply chain to provide quality assurance through product traceability. With the firm's heightened knowledge of the Chinese market, the interviewee understood that an internally integrated supply chain was a threshold capability for market entry into China. In order to meet this requirement, CO4 backward integrated to obtain a production facility in Melbourne in order to increase control of the product. This meant that the subsidiary offices in China were supported by the canning facility in Australia, and hence the strategy of backward integration was applied to mitigate the risk of safety breaches from independent OEMs. The last aspect of CO4's supply chain integration was the linking of its ERP system with its ingredient supplier (CO3), Australia's largest dairy manufacturer. Such a partnership was able to provide full supply chain traceability, as CO3 itself has a vertically integrated supply chain in Australia. Furthermore, CO4 gained significant reputational advantages from its association with CO3. These factors have enabled CO4 to achieve full supply chain linkage and traceability capabilities spanning from the farm in Australia to the consumer in China. Such capabilities

have been a key factor for success against all rivals in Australia and success in China. This is signified by the CO4 passing the CNCA audit over larger competitors.

The second post-market entry success factor was the firm's capabilities for meeting regulatory requirements. While these capabilities were mainly centred on CO4's integrated supply chain and product traceability aspects as a whole, other internal aspects played a crucial role. At the factory in Melbourne, the emphasis on maintaining a production that is of pharmaceutical standard for quality assurance purposes was also a contributing factor. In addition, having a stable source of supply was a requirement and being supported by CO3's partnership provided the surety that the Chinese authorities sought. The firm's implementation of systems and procedures to handle the technology around the blending of infant formula further met the requirements. This aspect was a success factor, as mentioned in the pre-market stage. The firm has invested in technologies that use QR codes to help consumers trace their products from point of sale and backwards, a system that is tied with the CACC in China which provides the consumers assurance through the regulator's website. This institutional leveraging is a successful strategy, as it was with CO3. The firm has selected partners that can meet its goal of full product visibility along the supply chain, and these partners provide credibility, with CO3's and the CACC's reputation being leveraged by CO4. The ability to successfully leverage key actors at each end of the supply chain has been a significant factor for its success in China.

A further capability of the integrated supply chain is its ability to act as a tool for collecting market intelligence. CO4 has the necessary resources and capabilities to gather intelligence on upcoming changes to the regulations through its customs clearing subsidiary. It is through this subsidiary that the firm is in constant contact with the authorities. With almost no psychic distance, the integrated supply chain, especially in China, signifies that market information can be attained and absorbed more quickly and acted upon. This represents CO4's ability to increase its knowledge-based resources and achieve first-mover advantage in the industry within Australia.

The third post-market entry success factor was the firm's brand strategy. With consumer emphasis on product safety, a success factor is its corporate brand leveraging the COO brand. This is significant in China as consumers are unaware of the product's composition. Purchasers take their cues from the quality and safety aspects of the country from which the product is derived. Australia is highly regarded in this sense, and so the firm has opted to use COO branding and develop their own brand which leverages off the Australian Made symbol. CO4 here again leveraged off a third party to reinforce its quality assurance credentials in addition to its partner alliances mentioned above. In addition, the development of multiple brands for different tiered regions through the above branding strategy is also a success factor for the firm, in conjunction with its geographical distribution strategy as discussed below.

The fourth post-market success factor was the firm's distribution strategy. The product's geographical circulation and control are two key factors for success. While the firm has its own retail outlets, it has selected distributors to allot its products to all three tiered regions in China. The success factor for the firm has been to penetrate all three regions with three individually branded products that are slightly altered to meet the needs of those regions. The key for the firm is to adapt each product's feature to the region, such as price point, so as to not cannibalise sales from its other products marketed in the other regions. CO4 can do this as it has a significant presence in China and no psychic distance. Nevertheless in doing so, the interviewee pointed to having the least amount of distributors as possible, so that the firm is able to control how the product competes in each region. The distribution is the final aspect of the supply chain. Much like in the findings above, controlling the product through a minimal number of distributors is a key success factor and the geographical and control aspects of the firm's distribution strategy are vital for the firm's success in China.



Figure 6.8. The CO4's perspective on its export performance to China

CO4 provides a unique perspective into the key success factors for exporting Australian infant formula to China from the smallest and least experienced infant formula exporter in the sample. Nevertheless, the factors mentioned above in the introduction provide great weight to the findings for CO4. From the findings, six success factors were identified for CO4 as shown in figure 6.8 above with two meta-themes. The findings showed six themes were uncovered with two meta-themes: (1) an emphasis on quality assurance through its production facilities and integrated supply chain, and (2) the importance of the firm's export market strategy for market competition. The two pre-market entry success factors and four post-market entry success factors make up the key success factors for CO4.

6.3. Cross-case analysis

This section provides a cross-case analysis of the individual case studies above. Much like the findings, the cross-case analysis is divided into pre-market and post market success factors. These factors are shown in Table 6.1 below. This section provides a descriptive analysis of the combined organisational case study findings and forms the basis of the overall discussion around the key factors for success.

Organisation	Pre-market entry success factors	Post-market entry success factors
Org 1	Advanced manufacturing capabilities Product traceability capabilities	Partner selection Relationship management Chinese regulatory capabilities Country-of-origin branding
Org 2	Quality assurance capabilities Operational capabilities	Product traceability and supply chain integration Partner selection Product adaption Brand strategy Distribution strategy
Org 3	Quality assurance capabilities	Product traceability capabilities Host country human resources Partner selection Brand strategy Geographical distribution strategy
Org 4	Quality assurance capabilities Human resource management	Supply chain integration Capabilities for meeting the regulatory requirements Brand strategy Geographical distribution strategy

Table 6.1. Pre- and post-market success factors for all four organisations

6.3.1. Pre-market entry success factors

From the combined case studies, the quality assurance capabilities of the firm is the mandatory key success factor that has been presented at the pre-market entry stage. Quality assurance was most

prominent and mainly centred on the operational aspects of the supply chain. The findings will show that this theme is affected by the firm's business model, size and experience.

6.3.1.2. Quality assurance capabilities

The quality assurance theme is the key success factor at the pre-market entry stage for exporting Australian infant formula to China. This theme pertains to the quality and safety of the product with the firms' manufacturing standards the key necessity. This requirement is not context-specific. Nonetheless, its importance in the Chinese context is twofold. The first point stems from the Chinese consumers' fears as a consequence from the Melamine Milk Scandal. The second is from the regulatory requirements imposed by Chinese authorities in the light of food safety scandals. CO4 was particularly vocal as to this theme being a key success factor. While CO4 is the most market-orientated, it is also the smallest and least experienced, all the other case studies being of significant size and experience. The underlying component of quality assurance capabilities was the high level of technological competency required at the manufacturing stage. This was not only a manufacturing requirement but also applicable to product testing.

Supplementary themes arose from the quality assurance capability requirements. CO4 highlighted HRM as a key success factor. The firm's HRM is foundational as it maintains the quality and safety of the product as it moves internally through the firm. With strong emphasis on product safety, they discussed integrating their HRM and operations to ensure product safety through cultural practises. In addition, a high psychic distance between senior management (most of whom are diasporic Chinese) and operational staff exists which further adds to the emphasis on HRM capabilities in production. These cultural differences were discussed by the interviewee, hence the emphasis on the firm's HRM as a factor for quality assurance. In addition, CO1 added product traceability to its key success factors at the pre-market entry stage. While product traceability is a prominent theme in the overall thesis, CO1's business model requires that its product traceability capabilities are domestically based only.

6.3.1.3. Dynamic manufacturing capabilities

Aside from quality assurance capabilities, CO1 and CO2 discussed the need for dynamic capabilities in their manufacturing processes. While the Chinese market itself is dynamic, this need for CO1 and CO2 has much to do with their business models. The value propositions of CO1 and CO2 are as an ingredient supplier and OEM manufacturer respectively. For such firms, value creation is at the operational level. Value creation was more acute for CO1 as an ingredient supplier, its business model of servicing limited clients with bespoke ingredients warranting such dynamic capabilities. While CO2 produces canned infant formula, its four clients have differing compositions and testing requirements. CO2 meets these as a part of its value proposition, hence the need for such dynamism in its operations. While all case studies act as OEMs, these dynamic capabilities act as markers of differentiation for CO1 and CO2. The findings also showed a correlation between internal supply chain integration and operational dynamism, with CO1 having the greatest degree of operational dynamism. The findings show dynamic capabilities

at the operational level are a key success factor, especially for firms with shorter internalised supply chains.

6.3.2. Post-market success factors

At the post-market entry level, four factors from the findings are key success factors. The first was the need for product traceability which provides supply chain transparency. The second was partner selection. These two are the logical extension from the pre-market factors discussed above. The third is the distribution strategy. This factor overlaps with partner selection, as will be shown below. Lastly, product-branding strategies are also a key factor. The latter two make up the key success factors for a firm's export market strategy.

6.3.2.2. Product traceability

The first key success factor post-market entry is the product traceability requirements for CO2, CO3 and CO4. This factor was mentioned in the pre-market entry stage for CO1, although if CO1 were to change its business model and forward integrate, it too would need product traceability capabilities at the post-market entry stage also. Product traceability is an institutional requirement from the Chinese government and also a significant barrier to market entry. The requirement for each case study was to demonstrate and ensure their products were visible along the supply chain. Visibility started from the farm in Australia to the consumer in China. Nevertheless meeting the product traceability requirements by each firm was done differently according to their business models. Below describes how each case study was able to achieve these product traceability requirements.

As CO2 is an OEM, its internal exposure to the supply chain was short, with only the processing and manufacturing stages in-house. To satisfy the CNCA requirements for product traceability, CO2 had to show evidence of its working relationship with its marketing partners. Although CO2 is a large and established infant formula exporter, it is through these partners that it was able to provide full supply chain transparency. For CO2, product traceability and partner selection as key success factors have significant overlap.

CO3 had two main advantages that aided them in meeting the product traceability requirements. The first was the internally integrated supply chain that spans from the farm in Australia to a canning facility in China. This factor provided the necessary link between Australia and China that the CNCA auditors required. The second was their reputational advantage from being Australia's largest dairy company. These two factors played a significant role in CO3 being the first Australian exporter to be granted a CNCA export licence. A further factor was the human resources element in its Chinese canning operations. The HRM competencies in this canning facility were also discussed from a quality assurance aspect, much like CO4's discussion on HR within its pre-market success factors. Not only is HRM a key for the firm's product traceability but also for business models such as CO3's are key success factors (much like CO4's above).

CO4 showed the most innovative method of meeting the product traceability requirements imposed by the CNCA. Much like CO3, the firm has significant internalisation of supply chain nodes, especially in China. Nonetheless, any liabilities the firm should have encountered from its relative size and inexperience were overcome by leveraging partners to provide full product traceability along the entire supply chain. This was achieved in two ways. It first established technological linkages between itself and its ingredient supplier (CO3). The advantage of this was that it provided product visibility back to the farm, as well as leveraging the reputation of CO3 through positive association.

The second advantage for CO4 was in providing transparency to the consumer, which no other case study had done. This was a key success factor for the firm as it provided a solution to alleviate much of the consumers' angst. To achieve this, CO4 worked collaboratively with the CACC (China Anti-Counterfeiting Coalition). The firm used a mix of its packaging technology (QR codes) and the CACC's website to propose upload the tracing of its products for greater quality assurance. Two advantages were realised by CO4. The first tied the CACC and CO4 together and creates a form of dependency. The second was again the reputational advantages gained from the association. As has been mentioned above, these actions by CO4 are attributed to the firm gaining the second CNCA approval over other reputable and sizeable competitors.

6.3.2.3. Partner selection

Partner selection was a significant success factor for all the case studies. Nevertheless, CO1, CO2, and CO3 used the term directly. The significance of partner selection as a key success factor cascaded from CO1 having a high dependence to CO4 having moderate dependence. The dependency is directly correlated with the business model of the firm and the level of internal integration of the supply chain. Furthermore, partner selection provides the mid-point where regulations for entry requirements end and the firm's export marketing strategy begins.

As mentioned above, partner selection was vital for CO2's product traceability capabilities. It was the selection and the leveragability of their partners that aided the firm in passing the CNCA audit. In the same way, partner selection for CO4 can be attributed to its successful passing of the CNCA audit. The selection of its ingredient supplier (CO3) and the association with the CACC were key factors in its success.

Nevertheless, from an export marketing strategy, the firm's internal exposure to the supply chain dictated their reliance on their partners. While CO3 references partner selection sparingly, indicating mostly distributors, while CO2 and CO1 placed greater weight to the term. For these latter firms, their business models have a high dependence on partners to complete the marketing aspects of the value chain. This is discussed above. This level of dependency is discussed significantly by CO1 as the interviewees discuss relational management as a key success factor for the firm. Overall, partner selection is a significant success factor for all the case studies.

6.3.2.4. *Distribution*

At the export market strategy level, the firm's distribution played a key role in the each case study's success. Nonetheless, distribution was most significant for CO4, CO3 and the CO2 interviewee from its general dairy export division.⁶³ These firms had a greater internalised exposure to the supply chain. The distribution factor was divided further into two sub-categories: (1) selecting the right distributor, and (2) geographical distribution strategy.

Selecting the right distributor was a key success factor and had much overlap with the findings around partner selection. The findings suggest that due diligence is a key requirement for success, with the findings signifying the selection of distributors who shared the same values and strategic vision as the focal firm. Strategic fit was most noted by CO2, who sought a distributor that was aligned with its strategic objective. CO2's new distributor is a regional state-owned entity with significant resources and capabilities from both a regulatory and competitive perspective.

With regard to geographical distribution strategy, Chinese cities are allocated into numerical tiers according to a range of economic and social considerations.⁶⁴ Geographical distribution was a key success factor for CO2's general dairy subsidiary, CO3, and for CO4, which is in line with their business models. The findings showed that CO2 and CO3 viewed second-tier cities in China as equally important to their geographical strategy as Tier One cities. Nevertheless, CO4 added Tier Three cities, which are less developed but with higher rates of growth. With CO4's highly internalised supply chain, in conjunction with high market orientation and no psychic distance, the findings suggest that they have much more confidence in their success. Overall, the key success factor for the above case studies was to incorporate the low-growth, high-value markets from Tier One cities with the high-growth and high-risk markets of Tier Two and Three cities.

6.3.2.5. *Product branding*

Product branding was also a key success factor for all case studies, with each case study's business model dictating its influence much like the discussion above. Taking into consideration these business models, the significance of product branding cascaded from high to low dependency. High dependency can be seen for CO3 and CO4, who each have their own internally branded infant formula. Moderate dependency was exhibited for CO2's OEM subsidiary, and low dependency for CO1, the latter due to it being an ingredient exporter.

All case studies viewed the country-of-origin branding (COO) of Australian infant formula as a key success factor. All shared the view that Chinese consumers place high importance on the COO brand. Australia was seen as a clean, green country of production, which fits well with the quality assurance

⁶³ As noted above, this interviewee provided the key success factors from the general dairy division of the firm for triangulation of the findings.

⁶⁴ This is detailed in Chapter Two.

findings suggested above. Again, the business model of the firm plays a significant role as to the COO effect on the firm. The product branding of CO1 and CO2 is mainly a generic function. As these firms rely on their marketing partners to perform this task, their product branding is centred on the COO aspect with an emphasis on quality assurance.

Regarding brand positioning, all the case studies suggested that their brands were located at the high-end segment, just beneath the brands that compete on the developmental qualities of their infant formulas. This latter aspect on the developmental aspects of infant formula versus the quality assurance aspects was briefly discussed by the interviewees from CO2's OEM subsidiary. These interviewees commented that the developmental aspects of infant formula would provide the greatest source of competitive advantage in the long-term once product safety issues begin to decrease. Their authority to make such a claim comes from their greater insight than the other case studies due to their collaboration with its largest marketing partner, a global multinational and a market leader in China.

Furthermore, importance of product branding to CO3 and CO4 is compounded as the COO factor and corporate brands require integration. These latter firms, the findings suggested, are required to build their individual corporate brands around the COO factor with an emphasis on quality assurance. This corporate brand is then underpinned by the fact that it is all produced in Australia, providing a further layer of product safety.

This corporate/COO brand integration is on top of CO3 and CO4's geographical distribution strategies. CO3 and CO4 segment the market with multiple brands in different geographical regions, looking to take advantage of the different socioeconomic characteristics as discussed above. This strategy is centred on product marketing throughout the different-tiered cities in China, with each product tailored to each region, and requiring an independent brand. The findings for these case studies suggested that a key success factor was to have individual brands for each geographical distribution tier.

6.3.3. Section summary

The above identifies the success factors for each organisational case study which is supported by an individual analysis of each and concludes with a cross-case analysis. With the help of the findings, the overall analysis provided a view into the similarities and differences amongst the cases. In conjunction with the macro and meso findings and analysis from Chapter Five, the next section in Chapter Six provides overall discussion which is the final part of this chapter.

6.4. Discussion

The aim of this section is to discuss the macro and meso findings in Chapter Five, along with the micro findings from the organisational case studies above. This discussion section is presented in three parts. The first section highlights and addresses criticisms. It shows that, while some are founded, the RBT theory provides an accurate mid-point lens into the factors needed for the successful export of infant

formula to China. The second part examines the internationalisation path of each case study under UM theory. Here the discussion will outline the path that each successful exporter has taken, along with the strategic capabilities configuration. The different business models are assessed using the Miles and Snow Typologies. The third discussion will apply RBT to look at overall internal success factors for exporting Australian infant formula to China. These factors will be presented with the most significant finding first.

Before proceeding to the discussion, the reader is advised of five key considerations that must be taken into account. These five points played a noteworthy role in shaping this thesis, with some factors still maintaining a disruptive force to the industry. First is the fact that the Chinese export market for Australian infant formula exporters is still new. This means that it remains significantly immature. Two is the fact that the Chinese regulatory environment is still highly dynamic and expected to be so post-thesis. Three is the fact that although the regulations in Chinese play a prominent role, international standards are also stringent, with ingredient composition and marketing being heavily regulated. Fourthly, there is a significant pull factor for Australian infant formula to China due largely to the Melamine Milk Scandal of 2008. Fifthly and finally, each case study had a unique business model. Heterogeneity for each case study was exhibited in the strategic capability configurations due to their business models which dictated their approaches to exporting to China. These five factors moderated the findings throughout the research period and the subsequent discussion.

6.4.1. Criticisms of the theories

Although the above provides a description of each theory independently, presented within each are subtle links between RBT and the UM. The fusing of the two allowed for the investigation into the process and into factors for exporting Australian infant formula to China. Both are neutral theories free of context and focused on the internal determinates of an organisation. The rationale for the UM is much simpler than that of RBT. As Benito (2015) states, the UM is a market-seeking theory to internationalisation. Regarding the phenomenon researched, Australian infant formula exporters are also market seekers as shown by their export mode of market entry.

While RBTs popularity is shown above, scholars have provided justification for criticism to be levelled at the theory due to its biasness towards a static, demand-side orientation (Priem and Butler, 2001b, Kraaijenbrink et al., 2010, Priem et al., 2013). These criticisms are shared by scholars towards the understanding of export performance (Chen et al., 2016) and are due to the multi-faceted nature within which the firm exists, making export performance research difficult. In light of the messy nature of the field there remains no theory that explains the coordination and magnitude of precursor factors in export performance (Chen et al., 2016).

In light of the theoretical overview and criticisms of RBT above, the rationale for its use in this thesis is addressed below:

- (1) Exporting infant formula to China due to the increase of trade is the phenomenon investigated in this thesis, which is original in its venture/product focus. The RBT provides a median perspective for research into the success factors for exporting Australian infant formula to China.
- (2) Both the theories and the research question are from a supply-side perspective.⁶⁵
- (3) All the organisational case studies achieved equifinality, but this is through their own unique strategic directions. Nevertheless, the findings showed there are foundational success factors for all organisations. This was also confirmed by the two non-market case studies, as they aided in triangulating the data.
- (4) As the thesis seeks to investigate the internal factors needed for success, those factors *ipso facto* are of value. In other words, the value of the firm's resources and capabilities is by definition a success factor for the firm, as they have been identified by the interviewees.
- (5) The resources and capabilities needed for success are clearly identified, including how they led the firm to achieving competitive advantage.

Addressing the first point above is the use of RBT to investigate success factors at the venture/product level for exporting Australian dairy products to China. As Eisenhardt and Martin (2000) state, RBT provides a middle ground for grasping the interplay between the environment and the firm. As there is little literature that explains the phenomenon, an inductive qualitative approach was selected. This lack of literature is due to the context, with a Western bias still outranking export performance publications (Chen et al., 2016). While criticism of RBT is warranted due to its exhaustion within the export performance research, there has been an overemphasis on Western studies. New qualitative avenues for research such as this thesis provide the starting point to increase research and a regenerative lens, as it provides an axis to further research.⁶⁶

The second criticism of RBT is its orientation towards the supply side. This criticism is a positive one for this research, as the understanding of the phenomenon is also from a supply-side perspective. The phenomenon is a dyadic relationship between the export (Australia) and import (China) markets. With the research question seeking to investigate the success factors for exporting Australian infant formula to China, this orientation is in line with RBT. Had this thesis incorporated the demand side, a theory encompassing the environment would be warranted. Furthermore, the elemental nature of RBT allows for greater optics to identify the VRIN resources and capabilities from the exporter's side. This is also the case with the UM.

⁶⁵ Other orientations such as the demand side are areas for future research, which is discussed in Chapter Seven.

⁶⁶ Please see Future Research in Chapter Seven.

The third criticism addressed is equifinality. While this does exist, it is only due to organisational case studies having heterogeneous business models and therefore strategic capabilities configurations. The different approaches to exporting infant formula to China did show slight variations in resources and capabilities, but this was mainly due to each firm's internal exposure in the supply chain. Nevertheless, the findings could show that all organisations require foundational resources and capabilities for their success factors. This was confirmed by the non-market case studies also. While firms with a greater presence in the supply chain had resources and capabilities specific to their exposure, firms with a small supply chain exposure wishing forward integration had to consider the success factors highlighted by the organisations with a greater exposure to the supply chain. The findings showed that the criticisms of equifinality had some justified in this thesis, but the addition of the Miles and Snow strategic capability configuration aided in providing greater clarity.

The fourth criticism of the RBT is centred on value. Specifically, the critics presented the argument around what is a valuable resource and capability for a firm and how this is valuable. This thesis accepts the interviewee's authority to classify a firm's success factors, and hence its subjectivity. The researcher concurs with Kraaijenbrink et al., (2010) that value is subjective. In this thesis its perceived value to the interviewees as a success factor is in line with Bowman and Ambrosini (2001). As the research question is to ask what the success factors are, the interviewees placed value upon the resources and capabilities mentioned. These are the key factors from their perspectives.

The fifth criticism about the clear identification of resources and capabilities is unfounded in this thesis. The unit of analysis, with its single product and market, indicates that the research is much more focused and the resources and capabilities are concentrated to the phenomenon (Sousa et al., 2008). Such a focus produced the context-specific resource and capabilities.

To sum, this thesis investigated the key organisational success factors for exporting Australian infant formula to China. With the unit of analysis being the venture/product, identification of specific resources and capabilities are needed to provide a foundational starting point, hence RBT. As Peteraf and Barney (2003) state, the RBT is well suited to investigating within an enterprise the factors that cause and lead to competitive advantage.

6.4.2. UM Theory and Miles and Snow

The UM theory was applied in this thesis to understand the possible paths of internationalisation that successful Australian infant formula exporters had undertaken. The case studies were all market-seeking in their orientation towards China, making UM theory the most pertinent to explore and understand internationalisation from a market-seeking perspective (Benito, 2015). With the literature review presenting the evolution of the UM, Figure 6.9 shows each case study's position in respect to this. The suggestion is that firms with medium to high psychic distance incrementally approach the China market. This was confirmed by the unfinished case study of a firm that did not incrementally

internationalise into China and sporadically exported to markets in South-East Asia and Latin America. The internationalisation route discussed above substantiates the UM theory's claims that success will accrue due to incremental internationalisation. This is because it offers a way of reducing the cost onto the business of any cultural differences that inexperienced exporters encounter (Johanson and Vahlne, 1977b). Using the Miles and Snow Typologies, the findings challenged the traditional UM. While CO1, CO2 and CO3 all followed the traditional UM of incremental internationalisation, CO4 is different. The following discussion provides an individual argument of each case study, preceded by a discussion into why CO4 was an outlier. Below are the details for each organisational case study.



Figure 6.9. Case studies and their position in the evolution of the UM

6.4.2.2. Case Organisation One

Case Organisation One exhibits the traditional UM of incremental internationalisation with significant export experience to the major Asian economies before entering China. It sits on the upper end of the 2009 UM with substantial learning capabilities all predominantly centred on its manufacturing capabilities (Johanson and Vahlne, 2009). This can be seen in Figure 6.9 above. These dynamic manufacturing capabilities were displayed when CO1 (in times of high market prices for key ingredients) was able to adjust its product mix to capture greater value. Its ability to do so was due to CO1's business model of being an ingredient exporter. An internal orientation means that its Miles and Snow Typology is as a defender, as it is internally focused in addition to having a narrow bank of partners (Miles et al., 1978). The combination of advanced and dynamic manufacturing capabilities, along with a narrow specialised client base, is CO1's success factor.

Partner selection is the most vital for CO1 (Johanson and Vahlne, 1992). To ensure the commitment of its partners, CO1 sold strategic stakes in its company as a means of ensuring export success. The firm has done this twice. While the first instance was to a Japanese company, leading to its success in Japan, the second, just recently, is to a large Chinese-based dairy company. This strategy for CO1 creates path dependency for its partners (Johanson and Vahlne, 2003) and increases the firm's opportunity-recognition capabilities. This is done so by bringing together its partners' high level of market orientation and combining it with the firm's dynamic manufacturing capabilities (Johanson and Vahlne, 2006). This is how the firm is able to concentrate its learning capabilities within its operational functions. With such a strategy, the firm has little need for an internalised export marketing strategy. As seen from the findings, post-manufacturing functions are mainly centred on partner selection and

relationship maintenance and executed by only three professional staff in an organisation of over 200 employees.

6.4.2.3. Case Organisation Two

Case Organisation Two follows the traditional UM with incremental internationalisation throughout Asia before entry into China. The firm is situated on the 2009 UM with learning capabilities in its operational aspect of the value chain (Johanson and Vahlne, 2009). This can be seen in Figure 6.9 above. With CO2's business model as an OEM, it's Miles and Snow Typology is as a defender, because it is internally orientated. CO2 therefore does not require any significant learning capabilities from an export marketing perspective; this is carried out by its marketing partners. CO2, much like CO1 above, maintains a narrow client base (Miles et al., 1978). With this narrow client base, the firm's resources and capabilities are not over-extended so as to maintain its dynamism. The strategy of maintaining dynamism is complemented by a select range of products developed.

Partner selection is the strength of CO2 and, along with its manufacturing capabilities, the critical factor to its success (Johanson and Vahlne, 1992). One partner is a large multinational with significant market share in China, and a market leader in the R&D aspect of product development. Another two partners for CO2 are Australia's leading infant formula brands in China. These provides a high level of inside information that's both industry- and context-specific. While not undertaking marketing activities directly, CO2 was able to absorb their partners' success factors, as shown in the findings above (Johanson and Vahlne, 2003).

CO2 has leveragability from their partner's insidership in China. The firm recently joint ventured with a familiar Australian brand to co-market an infant formula brand, but this has not yet yielded any success, with the company making considerable write-offs. While learning capabilities are only present in the manufacturing aspect of the supply chain (Spekman et al., 2002), their export marketing strategy remains unsuccessful. As Australian infant formula exports to China, they are in the early stage of the life cycle (Wheeler et al., 2008). The actions of CO2 show that their learning capabilities are situated in the manufacturing component of its value chain and missing in the post-manufacturing functions.

6.4.2.4. Case Organisation Three

Case Organisation Three follows the traditional UM of incremental internationalisation throughout Asia before entry into China. CO3 has significant exposure in Japan and Indonesia. The firm's business model is very different to that of CO1 and CO2, with greater internalised functions within the supply chain. CO3 is required internally to meet regulatory issues and to internally market its infant formula into China. Additionally, the firm also acts as an OEM, in order to mitigate the risk of excess capacity. The firm's Miles and Snow Typology is as an analyser, which is more outward-looking, with the simultaneous roles of maintaining the firm's product base and searching for new product markets. The greatest risk for firms such as CO3 is the incompatibility between the firm's structure and its strategy.

The firm has been built on a strategy of careful market penetration, while the context is turbulent and dynamic both from institutional and market perspectives (Miles et al., 1978).

CO3's status in the UM sees it achieving network exposure, but not yet being at the stage of the 2009 UM from a market competition perspective. This is shown in Figure 6.9 above. This assessment originates from the firm still being in the knowledge accumulation stage of the UM, with little to no development of learning capabilities exhibited (Johanson and Vahlne, 2009). Furthermore, with an internalised supply chain and vast resources and capabilities, no dynamic capabilities have been shown. Unlike CO1 and CO2, these dynamic capabilities are not required at the operational aspect of the value chain. Nevertheless, learning capabilities are key success factors for the firm's export marketing functions but are not yet present.

The key aspect for this position in the UM is due to headquarters' inability to acquire knowledge in China, suppressing the firm's dynamic marketing capabilities (Vahlne and Johanson, 2013). Much of the host country subsidiary functions as an operations centre for its canning facility, making this facility purely transactional. This can be seen by local management's ability to close the psychic distance, but this ability to close the psychic distance not yet been transferred to the firm's marketing strategy in China. As Ando and Paik (2013) state, the competencies of local staff narrow the cultural idiosyncrasies and provide knowledge transfer to the parent company. The findings showed a lack of information flowing between headquarters and subsidiary. The emphasis of CO3 was on operational aspects, not marketing strategy.

Much of the malaise in the firm's market strategy in China is due to its inability to acquire market information for effective use in its marketing strategy. Much of this absence stems from a lack of partners of strategic fit. This was a major criticism by the analysts interviewed. From a UM perspective, the firm is still in the partner selection phase (Johanson and Vahlne, 1992), as shown by an OEM partner who is a large multinational cancelling a supply deal. The loss of this significant partner illustrates a backdrop of major strategic and management issues that have negatively affected the parent company. Such developments have led to the arrested development of the firm's China strategy. Many of the issues can be attributed to the firm's structure and strategy. With the firm's corporate structure more suited to stable markets, along with China's dynamism, the firm required a more thoroughly planned incremental penetration, rather than an the aggressive analyser strategy chosen (Miles et al., 1978).

In light of CO3's troubles in China, the suggestion is a divestment in its China operations with a partner who is of strategic fit. Luo (1997) states that the right partner in China is able to provide country-specific knowledge. Such a strategy would see CO3 increase its export marketing dynamic capabilities and move forward in the UM. While the conversion of its canning facility in China from an IJV to a WOS has been beneficial from a transactional costs perspective (Chang et al., 2013), its underutilisation of

learning capabilities is still present. Luo (2000) states that many MNEs post-1990 converted their IJVs to WOS when moving into a more exploitation phase of their China strategy. Nonetheless, CO3 still exhibits actions that indicate it is still in the exploration stage. While Australian infant formula exporters are in the infancy stage of the life cycle (Wheeler et al., 2008), the firm has the necessary resources and capabilities over its rivals.

Although the firm has the necessary domestic supply chain infrastructure along with its WOS in China to build dynamic learning capabilities (Spekman et al., 2002), the absence of a partner and the input of significant resources to fill the void are visible. Liu et al., (2013) showed that supply chain integration and a greater focus on market orientation increase a firm's performance in China. Nevertheless, He et al., (2013) declared that firm's with weak market orientation capabilities benefit from partnering with a firm that can provide market information. A reversion to a joint venture could provide greater knowledge to convert the firm's market knowledge capabilities into learning capabilities (Johanson and Vahlne, 2009). The research by Benito (1997) revealed that Norwegian firms investing in China divested their operations over a ten-year period. The research showed that the catalyst was the acquisition mode of entry in addition to the double effect of country and corporate acculturation. For this void to be filled, CO3's middle management in China would have to take the lead and enhance the firm's marketing capabilities (Johanson and Vahlne, 1992).

6.4.2.5. Case Organisation Four

Case Organisation Four does not follow the traditional UM of incremental internationalisation. It solely exports to China, making CO4 an outlier to all the above cases. This is all the more astounding as CO4 is a SME of significantly smaller size than all the case studies above and should in theory be suffering from a liability of smallness. CO4 is situated on the 2013 UM, as shown in Figure 6.9 above, and is the only firm in the sample. The justification for this assessment is the firm's intranetworking between the headquarters and subsidiary as the key success factor for increasing the learning capabilities of the firm (Vahlne and Johanson, 2013). CO4's business model and Miles and Snow Typology is that of a prospector, similar to CO3's, with an outward focus on the market. Nevertheless, CO4 has the most internally integrated supply chain of all the case studies, especially in China. While prospector firms such as CO4 are more aggressive, they do risk resource over-extension (Miles et al., 1978).

In light of its single market strategy, CO4 could be classified as an international new venture with its size, rapid internationalisation and ability to leverage of external capabilities (Knight and Cavusgil, 2004). Nevertheless, this is a misnomer when two aspects of CO4 are underscored. The first is that the CEO and senior management are mostly diasporic Chinese, which means that the organisation has no psychic distance at the corporate level (Gillespie et al., 1999). Reiche et al., (2015) showed that a shared language (in this case Chinese) between the home and host country entities provides significant advantages in knowledge flow. Tung and Chung (2010) showed that diasporic Chinese in Australia

facilitated greater trade, due to their unique knowledge of their country of origin, which reduced variations in customer requirements and provided greater opportunity for profit.

While the psychic distance of senior management above is of great importance, the export experience of the firm in products similar to infant formula is also a significant success factor, and therefore the second aspect is the fact that the owner/entrepreneur has twenty years of exporting Australian agricultural and health products to China. Filatotchev et al., (2009) showed that characteristics such as international background and networks are a key success factor for returnee entrepreneurs in China. Furthermore, the firm is not a standalone entity and is a part of the owner's overall commercial interests. These business interests span twenty years in exports of health and agricultural products, with various marketing initiatives in China. As Eriksson et al., (1997) propounds, such exposure, repetition and variation in export marketing strategies produce valuable in-country learning that cannot be reproduced from secondary sources.

The dynamic capabilities of the firm exhibit the 2013 UM with intra-networks from the internally integrated supply chain. From the canning facility in Australia to retail outlets in China, the infrastructure afforded to CO4 provides the path for the learning capabilities it utilises. Spekman et al., (2002) indicate that the learning aspect of a supply chain is the factor that separates winners and losers, with empirical evidence showing cost reductions and enhanced opportunities for revenue. The firm has a high level of market orientation, which is also a key success factor in export performance (Sousa et al., 2008). This is very much the opposite of CO3, who has an internally integrated supply chain in Australia, no major partnerships in China, and a lesser degree of market orientation. The comparison is warranted, as both CO3 and CO4 share similar capabilities configurations.

Following on from the above, clear learning capabilities were shown by CO4 in its ability to meet the CNCA regulations. The disadvantage of its size was compensated by its exceeding the regulatory requirements. Through CO4's import office's networking capabilities with the regulatory bodies, the necessary changes were made, and the addition of an R&D facility internal to the firm and the inclusion of CACC in its integrated supply chain provided institutional legitimacy in China (Lau et al., 2008). This capability to take in and augment regulatory changes is ingrained in the firm.

The firm's absorptive capacity (Cohen and Levinthal, 1990) and ability to execute (such as changes to packaging requirements) means that it has a proactive orientation, which is a key success factor (Sousa et al., 2008, Zou and Stan, 1998). The firm's intranetworks help collaboration between Australia and China, along with third-party associations along the supply chain, which is a success factor for the 2013 UM (Vahlne and Johanson, 2013).

With CO4's internally integrated supply chain, especially in China, the combination of heightened entrepreneurial capabilities, no psychic distance and its supply chain exposure has created dynamic

capabilities for the firm with respect to meeting regulatory requirements. The only aspect in the firm's capabilities that is under developed is its branding capability. Much like CO3, CO4 is a relatively new exporter in China's infant formula market, and this life cycle stage plays a crucial role (Wheeler et al., 2008). Nonetheless the high level of market orientation and no psychic distance, along with the integrated supply chain, provides the foundation for increasing the firm's success in China (Morrison et al., 2008).

6.4.2.6. Section summary

The aim of this section was to discuss the organisational case studies against the UM, and to categorise them within the Miles and Snow Typologies. The discussion showed that CO1, CO2 and CO3 follow the traditional UM model, but CO4 does not. The capabilities of CO4 to enter and compete in China is due to senior management's Chinese ethnicity and significant export experience in related products. The findings from the discussion above suggest that the UM's horizontal process of successful incremental internalisation can be countered by the vertical penetration of one country when organisations have the necessary resources and capabilities such as CO4's.

Regarding the Miles and Snow Typologies, each case study exhibits a unique business model. The findings show that the sample contains two Defenders, one Analyser and a Prospector. These categories have much to do with the supply chain integration of each firm. The analysis shows that the Defender Typology is successful in China with firms who have a short supply chain and high psychic distance, while the Analyser and Prospector Typologies are more successful for firms with longer supply chains and low psychic distance.

6.4.3. Resource-Based Theory – factors for success

The aim of this section is to apply Resource-Based Theory and discuss the key success factors from the findings. With the theory guiding the thesis as to the factors for competitive advantage, these factors are drawn together from the macro, meso and micro findings within Chapters Five and Six. Displayed in Table 6.2, these success factors are presented in a sequential approach, mirroring the requirements for successful export performance of Australian infant formula to China.

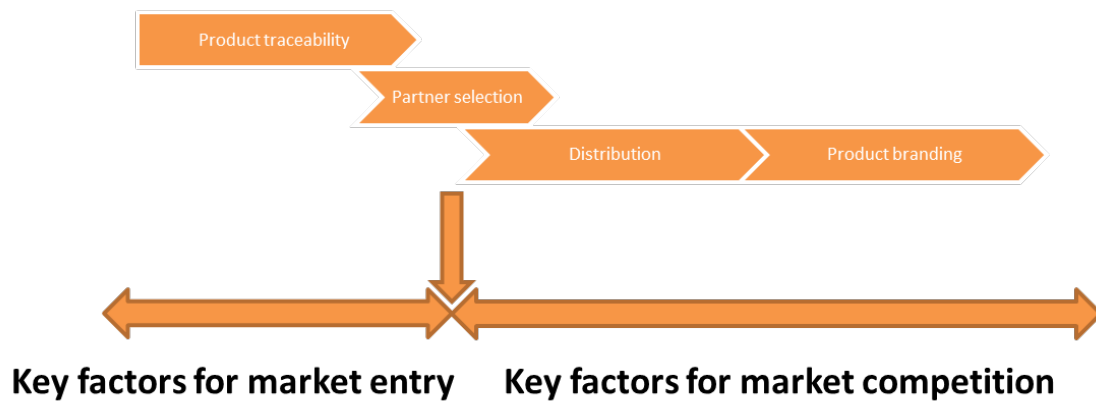


Figure 6.10. Key success factors for market entry and market competition

These key factors are group into two categories. The first is key success factors for pre-market entry, which consists of two elements: (1) product traceability, and (2) partner selection. The second is the critical success factors for post-market entry (competitive factors) which are (a) partner selection, (b) distribution and (c) product branding. Partner selection is seen in both as it overlaps.

Product traceability includes quality assurance capabilities through the firm's manufacturing operations, and requires the firm to have a transparent supply chain. Partner selection as a pre-market success factor is most pertinent for business models such as those of CO1 and CO2. For organisations with business models such as CO1 and CO2, partner selection can be both a key success factor for market entry and market competition, and depending on their partner's role, in fulfilling the vital value chain processes of the focal firm. At the export marketing strategy stage, the success factors included geographic distribution and distributor selection strategy. This aspect was the most significant aspect for a firm's success post-entry. Lastly the product branding being tied to the COO aspect was a key success factor for the firm's export market strategy. The following discussion will elaborate on these key factors.

Organisation	Pre-market success factors	Post-market success factors
Government	Quality assurance	Market commitment Regulatory capabilities Partner selection Distribution Branding Promotion

Industry	Quality assurance	Product traceability Partner selection Country of origin Distribution
Org 1	Advanced manufacturing capabilities Product traceability	Partner selection Relationship management Chinese regulatory capabilities Country-of-origin branding
Org 2	Operational capabilities Quality assurance capabilities	Product traceability and supply chain integration Partner selection Product adaption Brand strategy Distribution strategy
Org 3	Quality assurance	Product traceability Host country human resources Partner selection Brand strategy Geographical distribution strategy
Org 4	Quality assurance capabilities Human resource management	Supply chain integration Capabilities for meeting the regulatory requirements Brand strategy Geographical distribution strategy

Table 6.2 Full theme list at the macro, meso and micro levels.

6.4.3.2. *Product traceability*

Product traceability is the most significant internal determinant to the export performance of Australian infant formula exporters to China. The findings from the meso interviews and micro case studies confirm product traceability as a key success factor. Overall product traceability is shown as being

multifaceted, requiring both pre- and post-market entry success sub-factors. The pre-sub factors are the quality assurance capabilities that all case studies agreed upon at the manufacturing stage where product integrity was unanimously stressed. Post-sub factors included an integrated supply chain for CO3 and CO4, and partner selection for CO1 and CO2. The ultimate aim was of quality assurance and visibility of the product along the supply chain from Australia to China. Overall, the synchronisation of the supply chain, whether internally or externally integrated, is the key the success factor (Mykhaylenko and Schaft, 2010).

Product traceability began as the key requirement for market entry from the CNCA authorities, and as an institutional requirement from China, product traceability through supply chain transparency remains a significant barrier to market entry. Furthermore, product traceability is a new success factor in the field of export performance. The literature has vague references to the theme, with two examples that have come the closest. First is the importance of supply chain relations by Wheeler et al., (2008), which shows a slight link with supply chain management and export performance. The second, by Ling-Yee and Ogunmokun (2001), focuses on the competitive advantage of exporters through financial resources and the linking of supply chain skills. In the absence of export performance literature on product traceability, this thesis includes product traceability as a new internal determinant to export performance in a Chinese context.

At the macro level, the interviewees mentioned product traceability as a major market entry theme. Product traceability was referenced to in the quality assurance aspect as a pre-market entry success factor. The absence of product traceability by the macro interviewees can be attributed to their mandate as a facilitator of functions centred on the export marketing strategy of the firm (Menzies and Orr, 2010). The macro interviewees did not delve into organisational aspects for product traceability and provided only general information. This can be observed when one looks at the post-market entry success factors in Table 6.2 above. The meso-level interviewees assumed that product traceability was a given in a domestic setting, and the topic was mainly discussed with regard to its extension to China and requirement for entry. Analysis by Charlebois et al., (2014) confirms the industry interviewees findings that show Australia's traceability framework to be much more advanced than China's.

As the literature suggests, product traceability is a technical capability in the supply chain literature that references the quality assurance aspect of food along the supply chain (Bosona and Gebresenbet, 2013). Nevertheless, product traceability specific to dairy requires supply chain participants to focus on microbial, technical and operational aspects to ensure product safety, as shown in Figure 3.4 above. Overall, a traceability system's infrastructure will identify the risk and the ability to recall (Verdenius, 2007). In order for firms to have the capability for an effective product traceability system, substantial investment is required in the areas of human, financial and technological (Brofman Epelbaum and Garcia Martinez, 2014, Bosona and Gebresenbet, 2013). Lastly, the four factors required for a product

traceability system to operate optimally which were : (1) synchronisation at the organisational level, (2) processes and systems of production and their effects on a traceability system, (3) information processing, and (4) technologies deployed to bring it all together were all shown by the four organisational case studies (Verdenius, 2007).

Investigating the capabilities required for product traceability at the firm level displayed strong links with the discipline of strategic management. With each case study unique in its business model, their Miles and Snow Typology dictated their product traceability requirements. Regarding the CNCA requirements, the differing business models present these differences. CO1 have no product traceability requirement for market entry. CO2 require its partners in the process due to a short supply chain, while CO3 and CO4 have long internalised supply chains. The latter two have clear advantages from their product traceability capabilities due to their internalisation, which greatly increases visibility. This is mainly due to the synchronisation of supply chain links. Mykhaylenko and Schaft (2010) showed that such synchronisation implemented by tighter vertical management is a valuable resource to the firm and a source of competitive advantage. The suggestion is that internalisation means that vertical links are closer and standardised within the focal firm. Additionally, such internalisation increases the learning capabilities of the firm, an important factor for successful internationalisation as shown in the UM above (Johanson and Vahlne, 2009).

For organisations CO3 and CO4, the human element, as Brofman Epelbaum and Garcia Martinez (2014) detail, is vital and a source of competitive advantage, as discussed by CO3 in China and CO4 in Australia for product safety. When all major supply chain linkages are internalised, a valuable resource is created against comparative firms (Lai et al., 2012). Overall integrated supply chain linkages produce high levels of quality assurance. This is done by decreasing information latency and increasing efficiency in coordination of resources and capabilities, while producing causal ambiguity and resource immobility (Patnayakuni et al., 2006, Barney, 1991, Rungtusanatham et al., 2003, Narasimhan and Nair, 2005). This aspect was absent from CO1 and CO2, who focussed on the technological aspects of their operational capabilities as the key success factors for meeting quality assurance (Chen et al., 2016, Hortinha et al., 2011, Zou and Stan, 1998).

As CO3 is a large firm with a long, internally integrated supply chain domestically, it has significant resources and capabilities that give it an advantage over its rivals. Additionally this integration in its domestic supply chain is coupled with its wholly owned subsidiary in China. The combination of the two provides a multi-tiered supply chain, which is in turn a valuable resource and source of competitive advantage (Lai et al., 2012). CO4 has an internally integrated supply chain similar to CO3. As a SME, related firms in theory suffer from a liability of smallness in relation to their resource pool. Nevertheless, CO4's entrepreneurial capabilities of the CEO, utilisation of the firm's resources, relational capital in China and no psychic distance give it a competitive advantage (Roxas and Chadee, 2011).

CO4 reinforced its product traceability credentials in two ways. First it leveraged its ingredient supplier to have full supply chain transparency, thereby increasing its product traceability competency. In this way, CO4 was able to gain unique reputational transference through its ERP systems being linked. Such transference is a valuable asset to firms (Boyd et al., 2010, Barney, 1991, Kim et al., 2006). Furthermore, such technological alliances as shown by Lau et al., (2008) are a key success factor. These ERP linkages display trust, share best practices, reduce supply uncertainty and are a source of competitive advantage (Themistocleous et al., 2005, Davis and Spekman, 2004, He, 2004).

The technology aspect to meet the customers' needs is also a key success factor. CO4 has done this by leveraging its R&D technology with the CACC (China Anti-Counterfeiting Coalition). With CO4 having no psychic distance, an integrated supply chain and high levels of market orientation, this showed the innovative and entrepreneurial characteristics of the firm. Market orientation and low level of psychic distance are key success factors from the literature (Sousa et al., 2008, Chen et al., 2016). By using quick response (QR) codes on its packaging as a quality assurance mechanism linked with the CACC website, CO4 allows consumers to track individual products along the supply chain (Tarjan et al., 2014). Along with CO4, the meso-level interviewee specific to infant formula also discussed this as a key success factor in China. This is also the initiative by Fonterra in China, who is the largest dairy company in the world (Stevens, 2017). This initiative provides the final quality assurance to the Chinese consumers, where product safety is a major issue (Chung and Wong, 2013, Wu and Chen, 2013, Zhu et al., 2013, Veeck and Burns, 2005). Lau et al., (2008) support CO4's R&D endeavour, showing that perceived competencies in R&D infrastructure deliver a positive effect and provide firms legitimacy from an institutional perspective in China. Actions undertaken by CO4 suggest a course of measures, especially for SMEs seeking to undertake infant formula exports to China, as key factors to overcome product traceability requirements.

Servicing the consumer end of the supply chain with quality assurance technology is gaining traction. One such example is the collaboration between Australia Post, China's Alibaba and Blackmores (an Australian health and nutrition company that exports infant formula to China). This collaboration has already begun to look at technology to provide product traceability solutions to boost the exports of food to China. The initiative looks to use Blockchain technology to provide real-time auditing capabilities for a product through the supply chain (Post, 2017). The evidence suggests that servicing the consumer end of the supply chain is an ongoing key success factor, especially as food scandals might still plague China.

Product traceability also has significant marketing implications. Golan et al., (2004) show that by improving a firm's supply chain management, retrospective analysis of safety and quality leads to the ability to differentiate and market a firm's products. This is important for products such as infant formula due to their minute or invisible qualities to the consumer. Sparling et al., (2006) show product

traceability as a valuable asset to products that have specialty characteristics, much like infant formula. Also Maldonado-Siman et al., (2013) show that an effective product traceability system can protect brand names and increase consumer confidence. Contextually, product traceability is especially valuable to the firm (Hsu and Chen, 2004, Wu et al., 2011). A study by Zhang et al., (2012) that analysed consumers' willingness to pay for traceable pork, dairy and cooking oil in Nanjing, concluded that the consumer knowledge and awareness positively affected their purchasing habits. This was further validated by Wu et al., (2011), Wu et al., (2011) and Xu and Wu (2010).

A final aspect of the research into product traceability obligations shows the multiple entry modes required to fulfil their product traceability requirements. All the organisational case studies have multiple forms of secondary entry modes as their success factors in China. They were all part of their overall success factors. This phenomenon was researched by Benito et al., (2009) and presented as a messy depiction of international market entry. Much like the actions of the case studies and findings from the macro interviews, success in China for would-be exporters means taking note of the above.

6.4.3.3. Partner selection

All macro, meso and micro interviews except CO4 discussed partner selection as a key success factor. A firm's partners are a valuable resource and add significantly to the overall capabilities of the firm's international business success (Barney, 1991, Peng, 2001). Furthermore, partner selection is also a significant success factor in the UM (Johanson and Vahlne, 1992). As a factor for success, it was required in both a firm's market entry and export market strategies for CO1, CO2 and CO3. Nonetheless a definition of what a partner is in the context of export performance is elusive. Sousa et al., (2008) discussed the need for long-term relationships with value chain partners, while Wheeler et al., (2008) also apply the term liberally to supply chain partners. The term is a common theme in the joint venture literature in international business but not so much in export performance.

Differences were shown as to what a partner selection was, with reference to a firm's distributor the most frequent association between the focal firm and actors in China. This is consistent with the literature on joint ventures in China. Nevertheless, importer agents, public relations firms, advertising agents and other service providers were among the other actors to be considered as partners. Partner selection as a vague concept of a network actor is also expressed in the post-1990 UM (Johanson and Vahlne, 1992).

Furthermore, the importance of partner selection as a key success factor was propounded by an interview from an unfinished case study whose organisation's failure was mainly attributed to its selected partner. This unfinished case study went into receivership, and had a business model similar to CO2. The source of this firm's problems was the opportunistic behaviour of its joint venture/marketing

partner in China.⁶⁷ The findings from this interview showed that the firm's failure was attributed to its lack of due diligence, high psychic distance and reactive approach to opportunities in China. This is much the same as in the literature on the need for due diligence, and ethical and strategic fit between exporter and partners in China (Dong et al., 2010, Enderwick, 2009).

Level of partner reliance is also a key a consideration upon which success is dependent. Nevertheless, each of the Miles and Snow Typologies and internal supply chain integration of the firm dictates whether there is high, moderate or low partner reliance. The theme's importance cascades from CO1 who have the most reliance on a partner,⁶⁸ with all functions outside of basic manufacturing done by a partner, hence CO1 stating that partner selection and relationship management are key success factors. This is then followed by CO2, who depends on partners for the marketing aspect of the value chain. To these firms, their partners are their source of valuable market information which leads them to heterogeneity amongst their rivals (Johanson and Vahlne, 2006). Furthermore, the dependence on a firm's partner for CO1 and CO2 was vital at the pre- and post-market entry stage. This can be seen in the product traceability discussion above. CO3 mainly discusses partner selection from a distributor perspective. Lastly, CO4 with its long, internalised supply chain in China has little need for partner reliance as compared to CO1 and CO2.

The reference to partner selection in the case studies can also be interpreted as a pointer to the level of commitment required for success in China. The literature suggesting partner selection as a determinant of export performance is mainly confined within the context of China (Chadee and Zhang, 2000, He et al., 2013, Van Hoek et al., 2006, Mehta et al., 2006). The term 'partner selection' suggests not only an actor as identified above, but also represents the level of commitment that firms attach to their relations within the supply/value chain. This assertion is reinforced by the fact that many of the interviewees attached the term 'partners' to many of the actors they had dealings with in China. As with the literature around joint ventures discussing partner selection, level of reliance and reciprocity implies a greater commitment and embeddedness between these actors.

Sub-entry mode considerations and partner selection is also a key factor to a firm's success and very much reliant on the focal firm's business model. The true nature of international operations is one of multiple entry modes, as seen in the findings and supported by Benito et al., (2009) and Benito et al., (2011). While Van Hoek et al., (2006) showed the differing levels of entry modes Finnish exporters used in China when gauging their distributors strategies to that of the focal firm, in this thesis, entry mode combinations are dictated by each case study's business model. The focal firm's dependency on

⁶⁷ Their demise were realised when 'named and shamed' on Chinese state television for labelling problems in their infant formula cans. Not long afterwards the company ceased to trade.

⁶⁸ The dependence on a partner is also linked with the firm's advanced manufacturing capabilities that are dynamic and bespoke to their clients. This is CO1's mark of differentiation and the reason it is able to maintain its business model.

a partner showed their sub-entry mode. CO1 sold a major portion of the firm to its partner, while CO2 has strategic alliances with its partners. CO3 has a WOS and agreements with distributors while CO4 has a combination of WOS and IJVs along its supply chain. Much like the research by Benito et al., (2009), a firm's success regarding their partners shows a messy entry mode picture that is dependent on the focal firm's business model. Success of the firm depends upon attaching the right sub-entry mode to its selected partner in China.

Overall, this thesis provides a clear link between partner selection as a success factor for export performance (Barney, 1991). It also narrows the literature on partner selection between entry modes. One can apply the literature and themes from the international joint venture literature to the selection of partners in China for a firm's export performance. Themes from this entry mode, such as control, opportunism, trust, respect, cooperation and relationship-building, have direct relevance the export mode of market entry into China. This was all confirmed by the case studies, who discussed partner selection as a key success factor.

6.4.3.4. Distribution strategy

Distribution was the most heavily discussed theme regarding the firm's export marketing strategy. The macro, meso and micro findings in both qualitative and quantitative viewpoints argued distribution as the key success factor for a firm's export marketing strategy. At the macro level, one interviewee with great authority stated that distribution was the art of business in China. This statement is supported by Cui and Liu (2000), who put forward the distribution function as a key success factor in China. Furthermore, CO2's general dairy subsidiary interviewee explained that the firm's success in China was due mostly to its selection of a new distributor.

It must be noted, however, that distribution is not isolated to export marketing literature. Distribution is also a significant factor in the overall international business literature, especially in international joint venture research. Nonetheless, it is a prominent success factor in the export marketing strategy of the firm, as shown in the literature (Chen et al., 2016, Sousa et al., 2008, Wheeler et al., 2008). As China has been described as a 'distribution game' (Cui and Liu, 2000) the distribution component of the focal firm's marketing mix in China will present significant challenges to the focal firm (Liu and Po Wang, 1999, Dong et al., 2010, Jiang and Prater, 2002). With the overarching theme of this thesis centred on product safety, challenges from an infant formula perspective are due to a complicated distribution system (Luo, 2010, Lam et al., 2013).

A deliberate and proactive distribution strategy was seen in all the case studies and supported by the literature as another key success factor (Sousa et al., 2008, Aaby and Slater, 1989). CO1, CO3 and CO4 have all physical presences in China that facilitate, among other things, the firms' distribution strategies and provide a significant factor to their success. A meta-analysis on export marketing determinants by Leonidou et al., (2002) showed having a physical premises as a positive to a firm's export marketing

performance. The above factors have acted as a moderating effect on the overall success of a firm's distribution strategy. Overall, the three main aspects that contribute to a successful distribution strategy are: (1) a geographical distribution strategy, (2) the selection of a distributor of fit, and (3) the channel selections for distribution.

6.5.3.4.1. Geographical distribution

Geographical distribution in China is a factor for success for the case studies, especially for CO2, CO3 and CO4. The selection of a location by the focal firm is the first requirement. That is, organisations exporting into China must first determine to which city/town/region they must export. With China comprising differing regions distinguished by economic and social indicators, they are grouped into three tiers. The general literature on export performance is silent on this matter, suggesting that the geographical aspects of distribution is contextually specific. With much saturation in the first-tier cities, retailers in China have been expanding further into China's second- and third-tier cities (Fuller et al., 2007). Though first-tier cities have higher incomes with higher competitive pressures, second-tier cities have latent growth, lower incomes and price-sensitive consumers (Wong and Yu, 2003, Maruyama and Wu, 2014).

To penetrate second- and third-tier cities, the ability to access and tie up local distribution channels is the source of competitive advantage (Johnson and Tellis, 2008). These cities outside the main centres require focused and concentrated resources in order for distribution success due to being underdeveloped (Mahpula et al., 2013). Furthermore, their isolated nature from Western interaction means that a greater level of cultural awareness is required. Here, organisations with little psychic distance are at an advantage, as it minimises the informational cost, allowing for greater navigation into these distant regions. Firms wanting to be successful should look for both stable and growth markets in China along with the need to match the strategic fit between the focal firm and their distribution partners (Dong et al., 2010).

6.4.3.4.2. Selection criteria for distributors

The selection of a firm's distributors is also a key factor for success. The selection of distributors is not only crucial as a key component of the marketing mix but also for obtaining market information. The strategy of gathering market information is similar to the 2009 UM Theory which noted successful firms attained marketing knowledge which could then be converted into market-learning capabilities (Johanson and Vahlne, 2009). As discussed at the meso-level, New Zealand's success in having a market share of over 45% in China's dairy market, (Zhang and Roberts, 2016), is due to strategically partnering with distributors who have strong local presence. This has been a key success factor for New Zealand firms (Chadee and Zhang, 2000).

Nevertheless, due diligence is a key requirement for the selection of a distributor, very much in line with the literature on partner selection above. Governance aspects were discussed in the findings,

especially from CO2 and CO3, and this is supported by Enderwick (2009) regarding failures in China's dairy industry. With the push by the case studies to expand into underdeveloped regions, this strategy does come with a caveat. A warning by Chen et al., (2014) states that markets such as China offer huge potential, especially in regional areas, but that companies must be wary of untrustworthy and inexperienced local actors.

The network power of the selected distributor plays a significant role in the focal firm and is an important success factor (Johanson and Vahlne, 1990, Johanson and Vahlne, 2003, Hadley and Wilson, 2003). This is especially important in China due to the relational power of Guanxi (Luo et al., 2012). The networking capabilities of the distributor have the ability to influence positively the market and non-market strategy of the firm. The selection of a distributor with vast network capabilities was shown by Case Organisation Two's general dairy and food business findings. Their new distributor was both able to increase the commercial success and provide institutional assistance in relation to market entry requirements. Overall the network power of a distributor is a key consideration for success in a firm's distribution in China.

For future infant formula exporters whose business model is similar to CO4, this case study provides a unique insight in to the success factors, especially due to disadvantages in product experience and size. Their third party distributors alongside their own retail outlets, shows targeting of specific regions of growth with a local distributor with intimate knowledge of the region as successful. Furthermore, CO4 target all three market tiers, with three separate brands for each. The antecedent factors for CO4's success are an interdepartmentally collaborative supply chain (Stank et al., 1999), market knowledge and strategic distributor selection in each region. Moreover, the resources and capabilities from a heightened level of market orientation and internally integrated supply chain in China are critical factors for CO4's distribution strategy (Qu and Ennew, 2003, Liu et al., 2013, Sousa et al., 2008). Bretherton and Carswell (2001) indicate that selecting individual distributors for each region is a success factor when researching New Zealand wine exports into China. Moreover, individual distributors with good local knowledge was a key success factor in research by Van Hoek et al., (2006) on distribution alliances in China.

Furthermore, CO2's general dairy subsidiary provided strong evidence to support the above. Its relationship with its new distributor, a regional state-owned entity, has vastly improved the firm's revenue from its China operations. CO2 and its new distributor were both seeking the same strategic outcomes of growth in the second-tier regions. Dong et al., (2010) confirms these findings, stating that the strategic fit between a firm and its distributor is imperative to success. This strong relationship has seen an increase in the firm's market-based knowledge, allowing for better adaption to environmental changes. Bello et al., (2003) state that this is a key advantage to the firm. Furthermore, distributors such as CO2's have significant resources and capabilities. Distributors of such capabilities were shown by

Cui and Liu (2000) and Melo et al., (2009) as a key success factor for firms in China, and the ability to learn from and exploit such relationships provides idiosyncratic resources as highlighted in the UM (Johanson and Vahlne, 2003, Johanson and Vahlne, 2006). Overall, the advantages have been increased market knowledge, improved geographical growth and insulation from institutional pressures. The latter is a key factor for CO2's OEM, and all are factors for competitive advantage (Parry and Song, 1994, Johnson and Tellis, 2008, Hoskisson et al., 2000).

Lastly, the maintenance of these distribution relationships are also a key success factor, with the literature strongly supporting the evidence (Leonidou et al., 2002, Wheeler et al., 2008, Sousa et al., 2008). Nevertheless, the case studies spoke generally about the relational management of partners, with a vagueness of the term presenting itself again. While the UM discusses relational capital as a key factor for success (Johanson and Vahlne, 1992, Johanson and Vahlne, 2003), there is a presumption that China is a relational economy, making for more general, less specific discussion towards the distribution aspect. Findings by Mehta et al., (2006) advocate the argument for strong partnerships as a key requirement in China's distribution networks. These advantages are shown by Purchase (2011) to result in a risk reduction strategy due to the reciprocal needs of both exporter and agent. This very much fits in with the UM literature (Johanson and Vahlne, 2006). With the history of infant formula in China, risk reduction is a significant aspect and one that future infant formula exporters to China must address.

6.4.3.4.3. Distribution channel selection

While the above discusses the importance of location and distributor governance in the distribution strategy of the firm, the selection of distribution channels is also a key success factor. Leonidou et al., (2002) explains that the adjustment of the firm's channel design is a key success factor. This was also highlighted by CO3's mix of physical and online distribution channels. Gregory et al., (2007) supports the findings of an online and offline distribution strategy, which will see greater geographical coverage as online food purchasing is becoming increasingly popular in China (Ortega et al., 2015). Overall a long-term orientation towards off-line distribution and embracing the online phenomenon is shown to be foundational for success (Cui and Liu, 2000, Tacconelli and Wrigley, 2009).

Specific to China, the above channel strategy also helps to minimise the reliance of the uncontrolled Daigou trade. Chinese authorities have caused uncertainty for these traders by tightening the regulations for imports due to consumer safety concerns (Press, 2016). While the online channel is recommended, exporters must be cautious about over-exposure of the online distribution channels in China. Issues raised have been overreliance (Lynch, 2016), consumer price sensitivity (News, 2016), e-platform reputation, layouts and institutional pressures (Grigg, 2016). These aspects could have disadvantageous effects on physical store advantages, brand awareness and distribution strategies of the firm (Wang et al., 2008, Huang and Sarigöllü, 2012, Dawes and Nenycz-Thiel, 2014, Ha, 2004).

Lastly, the online channel and the platforms from which they operate also double as promotion tools. This was discussed by the macro interviewees, with online stores also acting as a platform for promotion, and online comments functioning as influencers for buyers' purchasing intentions. With many e-commerce sites also providing discussion forums, consumers can discuss product attributes and leave feedback. This feedback is referred to as 'e-word-of-mouth'. These findings on the importance of word-of-mouth in collective societies are supported by Fong and Burton (2008) who also indicate that Chinese consumers ask for online recommendations three times more often than their US counterparts, making this an important aspect for purchase intentions. With a high penetration of internet use in China, online platforms for purchasing have increased, and hence the online space becomes also an area for promotion of brands (Bai et al., 2014). This is also an area of attention future infant formula exporters must pay attention to in order to succeed in China.

6.4.3.5. Branding strategy

The branding strategy of the firm's export marketing strategy is a key success factor to Australian infant formula exporters to China. Nonetheless, a firm's business model dictates the significance of its branding strategy, as the findings showed. With CO3 and CO4 having internalised export marketing functions, a high reliance on the branding strategy for success was required. This reliance decreases for CO2, whose marketing partners perform the main functions of the export marketing strategy. Lastly, CO1 as an ingredient supplier falls under the ingredient branding category.

Nevertheless, this aspect of the firm's export marketing was the weakest success factor out of the lot. While product branding has significant positive effects on a firm's export performance (Leonidou et al., 2002), much of this weakness can be attributed to three factors. The first is that the competitive environment in China is intense. As Belinda Moore, food and agriculture analyst at Morgan's Financial Services highlights, the opportunities for Australian infant formula exporters are high but face tough competition from large multinationals who have significant resources at their disposal (Gray, 2017). Coutssoudis et al., (2009) support this by showing the significant resources large infant formula multinationals expend to build their brands. The second factor for weakness is the constant turbulence in China's regulatory environment. This factor is detailed extensively above, with one of its effects being the arrest on the development of the corporate brand by Australian infant formula exporters.

The third factor for weakness in this aspect is the fact that the Chinese market is relatively new for Australian infant formula exporters. Wheeler et al., (2008) indicate that the life cycle stage has an impact on a firm's export performance. The liability of newness of Australian infant formula exporters was revealed by Burra CEO Mr Grant Crouthers at an industry forum.⁶⁹ Mr Crouthers went on to say that branding in China is a long and intensive process, requiring significant resources to build a corporate

⁶⁹ Burra is a large dairy manufacturer with significant exposure to the China market. The forum was attended in person and notes were taken of the speech.

brand. This is also supported by the macro findings and articles in the business and academic press in Australia. Additionally, the infant formula industry globally is heavily regulated at both the manufacturing and marketing stages of the value chain. These strict guideline are both Chinese and global in context and mainly due to past transgressions (Boyd, 2012).

The market case studies showed that two types of competitive factors exist regarding the marketing approach infant formula brands can undertake: (1) competition based on the developmental aspects in infant formula, and (2) the quality assurance aspects of the product through the COO aspect. The developmental aspects of infant formula are underpinned by the firm's R&D capabilities. This approach has a greater sustained competitive advantage over just the quality assurance aspects. This was a matter of discussion by CO2, who highlighted this as a key success factor. Wang et al., (2012b) support the findings by CO2 of R&D capabilities and their product image as a sustainable source of competitive advantage over COO attributes. Nevertheless, no Australian firm competes on the developmental aspects due to the resource intensiveness required. This segment in the market has the highest value and is left to the large multinationals. It is these factors, as well as their first-mover advantages, that make the like of Mead Johnson, Dumex, Nestles or Abbotts highly favoured in China. This is a key success factor for gaining brand exposure and market share (Gong and Jackson, 2012b, Gao et al., 2006) and a key recommendation for Australian exporters with the necessary resources and capabilities.

Additionally, Australian exporters can look to differentiate using the quality assurance aspect via the country-of-origin factor for gaining competitive advantage in China. This aspect is the strategy so far for the case studies and the reason for the industries increased sales, according to Dairy Australia⁷⁰ as it becomes a solution to domestic product adulteration concerns amongst Chinese consumers (Gong and Jackson, 2012b, Chang and Kristiansen, 2006, Zhou et al., 2012). This is a less resource-intensive approach to an Australian infant formula exporter's marketing strategy from the R&D strategy above. With perceptions amongst the Chinese population of Australia's clean, green image, its quality assurance aspects have become a major selling point (Chang and Kristiansen, 2006). With brand and product safety shown to influence purchase intention of infant formula in China (Tang et al., 2014). The foundation of this is the COO aspect.

Whole the COO is enjoyed by all industry participants, allowing the free rider effect to occur (Mahon, 2002). Hence further differentiation for competitive advantage for Australian infant formula exporters will come from successfully leveraging COO with a firm's corporate brands. The findings, along with Sun et al., (2016), advocate that the corporate branding of the firm, underpinned by the COO aspect is a key success factor in China. The ability to achieve this will increase a firm's standing against domestic

⁷⁰<http://www.dairyaustralia.com.au/Markets-and-statistics/Exports-and-trade/International-market-overview.aspx>

exporters by increasing its reputational immobility and firm heterogeneity (Barney, 1991, Mahon, 2002, Peteraf, 1993).

While the above strategy is important, its longevity is also crucial, and the sustainability of this quality assurance strategy is expected to last for some time. With ongoing transgressions in food safety, relaxation of the one-child policy and increases in wealth and favourability of foreign brands, the evidence suggests that quality assurance plays a prominent role in China (Wei and Cacho, 2000, Qiao et al., 2012, Feng et al., 2016), and therefore very little has been needed for Australian brands to gain sales. Australian exporters are in an advantageous position against their international rivals.

An additional factor for the firm is to increase the intra-differentiation between its competitors in Australia. While no significant point of difference regarding branding and products from the case studies was shown, organisations outside the sample have been able to further differentiate themselves in a relatively homogenous export industry. Firms such as a2 with its unique protein advantage, Bellamy's, who are an organic supplier, and Nulac Foods, who make goat's-milk infant formula, provide such differences. These differences have been success factors for each of these organisations (Gray, 2017). A key factor for ongoing success will be a differentiation strategy that provides for heterogeneity amongst other Australian infant formula exporters (Barney, 1991, Peteraf, 1993).

Nevertheless, the over-reliance on the COO and quality assurance aspects is a liability for the firm and the industry as a whole. Transgressions by individual actors could tarnish the reputation of all Australian infant formula exporters. As Enderwick (2009) states, regarding the effects of dairy issues New Zealand firms had in China, quality failures have significant imposts on the COO from both social and institutional perspective. Previous issues with Australian infant formula exporters in China have shown the vulnerability of the industry as a whole. OZ Dairy is one case where incorrect used-by dates on its infant formula had the firm named and shamed on China's central television station CCTV (Business, 2014).

Overall, the ideal outcome for Australian infant formula brands exporting to would be to have the quality assurance aspects tied more to the corporate brand, thereby minimising their reliance on the COO. This is much the case with the multinational infant formula brands in China who have global supply chains (Kent, 2015). Key success factor in time would be a more pronounced corporate brand with little to no association to the COO as a source of competitive advantage. Nonetheless, the COO is expected to still play a significant moderating role in China (Wang and Yang, 2008b). By and large, it is suggested future Australian infant formula exporters should look at the above branding strategies as a greater economic cost/benefit approach to product branding.

Lastly, the phenomenon of the Daigou traders in Australia has further propelled Australian brands. While this is primarily a distribution channel, it would better serve exporters as a source of brand

exposure. As Daigou traders are hugely influential in the purchase intentions of China's infant formula consumers, with a2 and Bellamy's having the Daigou as a crucial component of their export marketing strategy (Grigg and Murray, 2017). Furthermore, the Daigou channel has shown to provide Australian brands with a catalyst to building rapport and gaining trust amongst Chinese consumers (Mortimer and Glavas, 2017). This Daigou strategy is important and should be seen as a complimentary to the firm's other branding strategies.

6.5. Summary

Chapter Six brought together first the findings from the organisational case studies and second the overall discussion. Each organisational case study is in order of the smallest of internal exposure to the supply chain to the largest. With the differencing business models, the relevant key success factors are shown for each individual firm. This captures the success factors from the least to most committed to the Chinese infant formula export market. These factors show the business models and where the value creation advantages are. For firms with short supply chains, these value creating advantages are at the manufacturing stage of their value chains. For organisations with long supply chains, the value-creating advantages were spread throughout but mostly concentrating on the marketing mix.

The second part of Chapter Six was the overall the discussion, which was set in two parts. The first discussed the thesis contribution to the UM theory, along with the Miles and Snow Typologies. In this section, CO4 challenged the UM of horizontal and incremental internationalisation with a direct export route from Australia to China. It was discovered the the firm had no psychic distance, especially its CEO, and along with past export experience in China (excluding infant formula) over twenty years was a significant success factors. This factor was shown to play a key role in overcoming barriers to market entry and competition, and is further compounded by CO4 being a SME as compared to the other three case studies being large firms.

Discussing the factors for success through RBT, four factors were identified at the macro, meso and micro levels and split between the requirements for market entry and competition. Product traceability was the first and most significant key success factor for market entry. This is a new inclusion to the literature into the internal determinants for export performance. Partner selection was both a success factor at the pre- and post-market entry level depending on the focal firm's business model. Short supply chain firms had a greater dependence for success on their partners than long supply chain firms. This is another significant addition to the export performance literature.

At the export marketing level, a firm's distribution strategy consisting of distributor selection, geography and channel selection was seen as a significant factor for success. The last aspect was the firm's branding strategy, with the combination of COO and corporate brand conveying the quality assurance message. Nevertheless, this aspect was the most under-developed of the value chain due to the newness of Australian exporters in China and the intensiveness of resources required. The factors

above were shown to have increased the success of infant formula exporters to China. Future Australian infant formula exporters should pay particular attention to these for success.

7. Chapter 7: Conclusion

7.1. Overview

The aim of this thesis was to investigate the factors for success at the organisational level for exporting Australian infant formula to China. The origins of this thesis lay in the observed phenomenon of increased infant formula exports to China and the observation that existing literature did not satisfactorily account for the success of infant formula exporters. In light of this void, the research question this thesis proposed was '*What are the success factors at the organisational level for exporting Australian Infant formula to China?*' Answering this question was achieved largely through a multi-layered, qualitative research design. This approach had three layers, with the macro-level interviews from a government export promotion agency, meso-level interviews and a focus group from industry associations, and four organisational case studies at the micro level. These organisations all had differing business models and strategies for success in China. The findings from these interviews, along with secondary sources, provided the necessary information to answer the research question. Before drawing conclusions and discussing their implications, the following section outlines the overview of the thesis.

7.2. Thesis overview

The following outlines the chapter-by-chapter summary as to how the research question was answered.

Chapter One presented the introduction to the thesis. It first outlined three important underpinning factors associated with the phenomenon investigated, as well as the primary mode of entry. This was then followed by the rationale that limited literature was available to explain the phenomenon which led to the research question. Next was the significance of the thesis, which detailed the economic and academic justification. Lastly, an outline of the thesis completes the Chapter.

Chapter Two detailed the important contextual factors associated with the Australian dairy industry and the Chinese dairy market. It first presented the most important facets of the Australian dairy industry: its geographical spread, economic contribution, the dairy value chain factors and composition of the industry associations. Market events related to this thesis were also displayed to evidence the effects that the China export trade has on the industry. Second, the Daigou phenomenon was identified and described as a key influencer for the success for Australian infant formula exports to China. The third section provided the key economic and social factors relevant to the thesis. Additionally, food scandals were identified with particular reference to the Melamine Milk Scandal of 2008. Lastly, changes in China's legal food safety framework was presented, with particular reference to the market entry requirements by the CNCA.

Chapter Three presented the relevant literature into export performance in three sections. First was the most relevant theories –the UM and RBT – that would best answer the research question. The UM

provided the lens into the path that successful exporters undertook, while RBT provided the midpoint lens at identifying the success factors that are VRIN to a firm. Both theories were shown to be complimentary due to their orientation and supply-side perspective. Second was the presentation of the export performance literature, detailing first entry modes then characteristics of the export mode of entry. This was followed by a detailed examination of the relevant literature into the determinants for export performance. Outside factors pertinent to this thesis were also included due to their contextual significance. The third aspect detailed Miles and Snow framework. The four typologies provided a lens into the configuration of resources and capabilities for firms with different business models. This literature aided in generally understanding the motives, resources and capabilities of firms with heterogeneous business models.

Chapter Four described the research design. Being a problem-based approach, it was agreed that answering the research question was best carried out through a qualitative inductive approach. The following sections that detailed the unit of analysis and context justified this approach. In light of the problem-based approach and nature of the phenomenon, the participants were arranged in multi-layers. This was designed to capture macro, meso and micro insights through case studies and interviews. The data analysis method allowed for the interrogation of each individually and then collectively. Chapter Four concluded by addressing the requirements for validity and rigour, as well as identifying limitations and constraints.

Chapter Five presented the findings in a logical order, beginning with the macro interviews, and followed by the meso interviews. Presented individually first, each level was introduced, followed by the pre-market and post-market success factors for each. Each macro and meso analysis was concluded with an individual analysis. The last part of Chapter Five was a cross-analysis into the similarities and differences between the findings. These findings are used within the overall discussion.

Chapter Six provided the micro-level findings as well as the overall thesis discussion. The micro-level findings followed the same structure as those in Chapter Five, although firms were arranged from the shortest internally integrated supply chain to the longest. The discussion in the second part of Chapter Six first discussed the UM along with the Miles and Snow Typologies for each individual case study. It displayed each case study's UM path and typology, along with the similarities and differences in the literatures. The second discussion identified and explained through RBT the VRIN factors for export success. These factors were presented in order of importance. In the same sequence these factors are displayed to show the pre- and post-market entry success factors (in order of short- to medium- to long-term factors) for competitive advantage.

7.3 Conclusion

This thesis aimed to investigate the successful factors at the organisational level for exporting Australian infant formula to China. It was underpinned by two theories. The first was the UM theory of the

incremental internationalisation of the firm and the second, RBT on factors for competitive advantage. Furthermore, the Miles and Snow Typologies provided further insight to the configuration of each case study firm's strategic model, along with their resource and capability base. Overall, the theories and framework provided the necessary guidance to successfully answer the research question. These successful factors can be examined at their pre-entry stage and post-entry stage. Based on the findings reported in Chapters Five and Six, the following conclusions can be drawn.

Firstly, a general overview of the factors across the findings showed the importance of meeting institutional requirements for success shifted from general to specific at the macro, meso and micro levels. This was primarily due to significant levels of regulatory dynamism affecting the organisational cases. Nonetheless, CO1 was the only exception at the micro level due to its business model circumventing the institutional requirements imposed on CO2, CO3, and CO4. These institutional requirements are for short- to medium-term competitive advantage. Conversely, the export marketing requirements for success went from specific to general at the macro, meso and micro levels. This was due to the macro-level interviewees specialising in export marketing strategies in a China context. The organisational case studies spent many resources overcoming the regulations and their aftereffects, thereby arresting the successful development of these marketing components. The findings suggested that these export marketing components are for long-term competitive advantage.

Regarding the successful factor at the pre-entry stage, low psychic distance is very important to the internationalisation of these firms. A firm's prior internationalisation experience or the use of diasporic staff can help reduce psychic distance. The UM's analysis of the path firms undertook showed that successful organisations with a higher psychic distance exhibited the traditional route of incremental internationalisation. Furthermore, these firms have a B2B business model, whereby their strategic partners for China reduce the impost of psychic distance. The firm that did not meet the UM model had an extremely low psychic distance, for which internationalisation was successfully undertaken directly from Australia to China. Nevertheless, this success was due to past vertical penetration into China as opposed to the traditional horizontal (global) internationalisation. Furthermore, its management is diasporic Chinese with vast contextual knowledge and experience. Firms with such capabilities are successful from a B2C model. The ability to absorb information from a long, internally integrated supply chain is the key success factor for such firms.

With regards to the successful factors at the post-entry stage, the RBT analysis showed pre- and post-market entry success factors as shown above in Figure 6.2. Four factors that were common to the three layers of the analysis were product traceability, partner selection, distribution strategies and branding strategies. More importantly, product traceability, identified in this thesis is a new successful factor to the export performance literature. Furthermore, partner selection has been elevated in importance as a

factor to consider in export performance literature. These factors provide the institutional and market requirements for success as seen in Figure 6.10.

As product traceability was the most significant determinant for success, the antecedent factors required differing approaches depending on a firm's business model. Nevertheless, unanimity on quality manufacturing was observed. Organisations with long, internalised supply chains were able to meet the product traceability requirements easier than firms with short, internally integrated supply chains. This was due to the firm's increased internal visibility. The latter firms required a strategic partner with the ability to provide full supply chain transparency that satisfied Chinese authorities. Achieving the product traceability capabilities is a key market entry requirement for success in China.

While partner selection was both an institutional and market requirement for export success, its dependency fluctuated. Firms with short internalised supply chains had greater dependence on their partners due to the outsourcing of major value chain functions. Long internalised supply chains had these value chain functions confined within the firm. The importance of partnership selection both in China in the distribution and/or in Australia in the supply chain has been identified in all four organisational cases either directly or implicitly. By and large, most Australian infant formula manufacturers are relatively small in scale and operate in a short supply chain. These organisational characteristics – coupled with the complex and dynamic market and regulatory environment, selecting partners that can ensure traceability and having complementary capability to the organisations studied – become crucial to export performance in the Chinese market.

Distribution in a firm's export marketing strategy was the most discussed marketing mix factor for success. The distributor selection, geographical distribution and channel selection (online and offline channels) were the three main subcategories. While mainly the domain of B2C exporters, its significance was discussed by all. Although distributor and channel selection are common themes in the literature, geographical distribution has little representation but is of significant relevance to China. The analysis showed China as a heterogeneous market where distribution to cities of greater underdevelopment require low levels of psychic distance. Much like the UM, the advice to exporters was to intra-incrementalise expansion within China from Tier One cities and out as the focal firm's psychic distance decreases.

The last factor for success and also the one requiring the longest amount of time to achieve was the firm's branding strategy. The branding strategy of the successful exporters above showed first, the need to increase the focal firms corporate brand that is underpin by the COO brand to portray the quality assurance aspects of the product. Nonetheless, the length of time taken to develop and resources required means that organisations must be innovative and leverage platforms to help increase the presence of the brand. While the corporate brand underpin by the COO is seen as a successful strategy

for the short to medium term, long term success will require Australian infant formula exporters to elevate their corporate brands to become standalone, thereby minimising the need for the COO brand.

Overall, this thesis investigated the path and factors for success in exporting Australian infant formula to China. Applying the theories and frameworks highlighted four major success factors required. These factors addressed the institutional requirements for short- to medium-term competitive advantage, while the export marketing requirements addressed the medium- to long-term factors for competitive advantage. It is advised that potential Australian infant formula exporters looking to enter China to address the four success factors in accordance with their business model.

7.4. Contribution to knowledge

This thesis has made a number of contributions to knowledge of factors underlying the successful export performance of firms. First, the thesis challenges key elements of the well-known UM model. These findings, especially those of CO4 showed the firm internationalised directly to China and is in direct contradiction to the UM model on incremental internationalisation (Johanson and Vahlne, 1977b). Given that the firm's senior management were predominantly Chinese, the psychic distance between the firm and host country was small. Therefore the findings showed that a more sophisticated investigation of psychic distance is require. One cannot simply rely on a macro level analysis of this factor (Johanson and Vahlne, 1977b).

As to the viability of RBT in export performance research, this thesis provides evidence to its usefulness when researchers are first trying to explore and explain a phenomenon with limited past explanatory literature. While the criticisms of RBT as mentioned in Chapter Three are warranted, the supply-side nature of the theory and the research question provided the necessary fit for its use (Priem and Butler, 2001b). This was also the case with the UM. Furthermore, the use of the Miles and Snow Typologies allowed for greater clarity in the discussion of the UM and each organisational case study. The Miles and Snow Typologies also aided in reducing equifinality, a major criticism of RBT (Priem and Butler, 2001a). The UM, RBT and the Miles and Snow Typologies provided a multi-lens analysis to the overall thesis due to their orientation towards the resources and capabilities of the firm. Additionally, this is a first in the literature of export performance, international business and strategic management.

This thesis has contributed valuable insights into the internal determinants for export performance within a Chinese context. This focus is precisely one that researchers in the field have been requesting (Chen et al., 2016). A significant and unique contribution is the finding that indicates the centrality of product traceability as a positive determinant to export performance in a Chinese context. This finding showed organisations required a long chain of resources and capabilities to meet a particular institutional requirement for market entry and product safety into China. The ability to coordinate such resources and capabilities is a unique form of competitive advantage only shown within infant formula exports to China (Barney, 1991, Barney, 2012).

The thesis indicated that for the export mode of entry, partner selection was an important factor for success. While China-specific literature has referenced partner selection (He and Wei, 2013, Chadee and Zhang, 2000, Van Hoek et al., 2006, Mehta et al., 2006), these references lack detail and focus on numerous entry modes and not specific to export performance. This thesis identifies the close relationship between partner selection and export performance as an internal determinant. It furthermore shows the varying levels of dependencies an organisation has to its partners by applying the Miles and Snow Typologies to highlight each organisations strategic direction. The direct link between partner selection and the export mode of entry as a key success factor expands the literature in export performance.

At the export marketing level, the distribution factor played the most prominent role. While distributor selection and channel partner selection are prominent themes in the literature (Enderwick, 2009, Ortega et al., 2015, Dong et al., 2010), this thesis showed that geographical distribution was a crucial factor, and one that had not previously been studied (Sousa et al., 2008, Chen et al., 2016). This finding showed China as a heterogeneous market for distributors with intra-markets that require further segmentation. The analysis showed that success in selecting a geographical distribution strategy is dependent on each region's level of social and economic development (Wong and Yu, 2003, Maruyama and Wu, 2014), along with the focal firm's business model and degree of psychic distance.

On the issue of product branding, the thesis shows that it is vital for a firm's corporate brand to be underpinned by its COO brand. While much general literature on this topic exists, the significance in this context is important due to past contamination of domestic made infant formula (Gong and Jackson, 2012a). The findings from the thesis contribute to the existing literature that includes different industries and national contexts (Mahon, 2002, Henderson, 1998, Guercini and Ranfagni, 2013) by demonstrating infant formula brands being paired with Australia's COO brand becomes a marketing success factor.

Methodologically, the thesis deployed an innovative research design that enabled the researcher to take account of different levels of knowledge about the industry as well to take account of a dynamic and often turbulent export environment. For example, the need for case study closure was required for CO3⁷¹. In order to complete this case study, the study drew upon the knowledge of independent experts (as detailed in Chapter Four). The multi-layered approach of having macro, meso and micro interviews and case studies improved the quality of the research design. This multi-layered strategy not only added greater weight to the findings but also provided triangulation, necessary to take account of the criticisms associated with product/venture studies (Chen et al., 2016).

⁷¹ This aspect is discussed in the limitations section.

7.5. Stakeholder implications

This thesis was intended to have practical application to the Australian dairy industry and beyond. The wider sub-sets within the dairy industry provided a window into the possible future institutional and market requirements for exporting to China.⁷² Furthermore, the findings can also be expanded to include the wider food exporting industry in Australia. With food safety a significant issue in China and factors such as product traceability and COO marketing as a consequence, exporters of similar products could proactively undertake such actions for competitive advantage.

The practical application of the findings at the organisational level would have positive consequences to a firm's strategic approach when exporting infant formula to China in three ways. It first provides greater accuracy in identifying the necessary resources and capabilities for success. Second, the findings provide guidance into how the identified resources and capabilities would be acquired. Third, the findings would allow the allocation of these resources and capabilities within the firm to be done with greater efficiency.

These practical implications, though valuable to the industry as a whole are most important to the hundreds of SMEs identified in Chapter Two, as their size is a major constraint. This thesis therefore allows the infant formula industry the possible benefits in two ways: (1) as guidance for newcomers entering the Chinese market, and (2) for existing exporters to focus on success factors highlighted in this thesis. Overall, the implications have the ability to increase the competitiveness and viability of the industry's export performance to China.

This thesis also has social implications in Australia, especially for regional dairy farming communities. If firms were to grow their infant formula export businesses to China, then there would be an expected increase in employment and general economic activity for these regions. The primary beneficiaries would be the farming, processing and manufacturing sectors. Furthermore, if there is growth in the dairy export trade then ancillary services required to facilitate these key functions within the supply chain would increase also. Overall, the multiplier effect would result in increased general economic activity to rural communities, with the expectation of a trickle-down effect.

At the government-to-government level, increased trade would mean greater co-dependency between Australia and China. Australian policy makers could seek to work with their Chinese counterparts to harmonise Chinese regulations pertaining to aspects centred on quality assurance and market entry requirements. As this thesis has showed, significant resources are expended to meet the entry requirements of the Chinese authorities. Such a regulatory initiative would reduce the ambiguity many

⁷² This aspect is highlighted in the findings by the industry association case study.

exporters face, along with effective use of resources so as to provide the Australia industry as a whole greater competitive advantage.

Nevertheless, a negative implication must be addressed. While the thesis showed the internal determinants required to successfully export infant formula, geopolitics also plays a crucial role. Much has been written on the containment of China by the West, as shown by the latest Australian government white paper.⁷³ Conversely, China has used technical barriers to trade as a political tool against numerous countries.⁷⁴ One such example was the banning of Norwegian salmon exports due to the Nobel Prize awarded to human rights activist Liu Xiaobo, who China considers a jailed dissident (Milne, 2013).⁷⁵ With the Australian liberal government of the day increasing their anti-China rhetoric, along with formal Chinese protests (Dziedzic, 2018), any escalation could see Australia suffering the same fate as Norway. Hence the implication for infant formula exporters is that the industry could be a likely victim if such issues escalate between Australia and China diplomatically.

7.6. Limitation and areas for further research

This thesis has opened up numerous opportunities for further research. For example, one such possibility is to apply the factors identified as key success factors from this thesis into a quantitative research instrument. As the research design of this thesis is more suited to expansionists than reductionists, theoretical propositions can be generated, upon which large scale quantitative testing could be conducted (Welch et al., 2010, Stake, 1978). Such an endeavour would test the explanatory strength of the findings over a wider population. This could be undertaken for both Australian and non-Australian exporters.

As this thesis is an investigation from the supply side of the phenomenon, an opportunity is available to investigate the demand side of this dyadic relationship. A possible research question could be to answer, '*What are the key success factors for importing Australian infant formula products into China?*' By using the findings in this thesis as a theoretical framework, scholars could open the research area further by investigating the similarities and differences between the findings.

Moreover, each factor for success could be further researched. The product traceability findings, which showed a long and interconnected set of resources and capabilities for success could be closely analysed and their contribution to enhancing the competitive advantage of the firm investigated (Barney, 1991). Furthermore, with organisations having different strategic directions, application of the Miles and Snow

⁷³ The full report is available on the Australian Government website <https://www.fpwhitepaper.gov.au/foreign-policy-white-paper>

⁷⁴ This area of research is familiar to the researcher as it was part of his major assessment during his Chinese Law studies. Several measures can be taken by China through the WTO under the Sanitary and Phyto-Sanitary rules. A case in point is the use by Russia of these same measures as a counter against the EU's sanctions against Russian takeover of Crimea.

⁷⁵ For the full details of the case between China and Norway visit the WTO website http://www.wto.org/english/news_e/news13_e/sps_16oct13_e.htm#salmon

typologies and a firm's product traceability requirements could show the similarities and differences required for export performance (Miles et al., 1978). Such an approach could be extended to the other factors for success, namely partner selection, distribution and branding.

The Daigou phenomenon that came out of the findings provides a new avenue for research. As a grey form of parallel exporting due to its unconventional approach (Li et al., 2018), closely analysing this phenomenon provides the ability to increase our knowledge. Moreover, while the Daigou phenomenon uncovered within this thesis points to it being a distribution channel independent of a product's manufacturer, it can also provide a new avenue for market entry studies. It is suggested researchers could negate previous criticisms of saturation in market entry studies (Shaver, 2013). With this Daigou phenomenon's relative newness to the literature, its multifaceted nature which consists of heterogeneous characteristics in a home and host country (Jin, 2017) can significantly contribute insights to the overall field of entry mode studies (Hennart and Slangen, 2015).

Geographical distribution within China provides fertile ground for greater investigation. Researchers could apply the UM model of incremental internationalisation to China's internal markets. They could investigate whether firms follow the UM by entering into first-tier cities and then penetrate incrementally to second-tiers once knowledge and commitment is gained (Johanson and Vahlne, 1977b). This would open the avenue of transferring the UM from being a transnational, market-seeking theory of internationalisation to one applicable to intra-national expansion.

The findings could also be applied to researching the export performance of other agricultural products being exported to China. With similar food safety concerns by Chinese consumers across the whole sector, research into seafood, meat, or processed food would allow academics to compare and contrast findings. This avenue of research again would apply this thesis's finding into a theoretical framework.

Lastly, the phenomenon could be further investigated through the application of different theories. At the organisational level, the use of the dynamic capabilities theory could provide a greater insight into how organisational resources and capabilities are adjusted to meet the dynamic requirements of the Chinese market. This has already been applied to both the UM process and the factors for export performance (Chen et al., 2016, Vahlne and Johanson, 2013). Also, applying the institutional theory could provide insight into China's institutional arrangement and its effects on export performance. The use of different or paired theories could provide greater insight into the key success factors for exporting Australian infant formula products to China.

8. References

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